ECONOMIC NATIONALISM AND THE FARMER

ARTHUR C. BUNCE

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by

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INTRODUCTION

During the past few years there has been a growing sentiment in support of economic nationalism. This is definitely a renewal of the once popular doctrine so ably supported by Hamilton, Clay, and Carey. The recent movement has directed its efforts towards the farmer in an attempt to convince him that his interests are common with those of the large industrialists in that his profits will be increased by restricting imports of competing foreign products and by encouraging the production at home of imports which are not at present produced in this country in significant quantities.

This essay is an analysis of these arguments from the standpoint of the farmer and an attempt to present the probable results to him of a further development of economic nationalism whether it is the result of a foreign policy definitely planned to achieve an "America Self-contained," or whether it is the result of a gradual drifting into isolation due to a continuance of the traditional tariff policies of the past.

Foreign trade policies have been, and to a large extent still are, dominated by political motives and necessities. The fact that the problem involves the economic well-being of the people is largely ignored, and we have the phenomenon of an economic problem being treated almost exclusively from the political point of view. Tariffs are used as a means by which the votes of certain groups may be obtained within nations, and as a means of achieving a national solidarity free from economic pressure from the outside. The question of the good of the nation as a whole is, of course, brought to the front, but it is not the good of

the nation, from an economic point of view, which aims at a high standard of living for all; but rather is it the good of the nation from the point of view which aims at attaining political ends.

This seems particularly true of Germany and Italy, where self-containment, through the imposition of high tariffs and import quotas, has been basically a military measure aimed at increasing the food supplies produced at home in order that they may not be starved into submission in the event of war. During the campaign of 1936 the Republican party in America appealed to the farm electorate by offering to "preserve the domestic market for the American farmer" in order to equalize, in some measure, the protection given to industry. This means a policy of higher protection on competing farm products. In contrast to this position the Democratic party has reduced tariffs by means of reciprocal trade agreements, and claims that the general increase in trade will stimulate a rise in prices far more effectively than tariff barriers which strangle trade. The administration also claims that, in the long run, an expansion of foreign trade is fundamental to the well-being of the farmer, and that until trade is expanded some form of crop reduction is essential.

In the British Commonwealth of nations there are also two points of view hinging upon the interpretation of the Ottawa trade agreements; the conservative imperialistic group sees these agreements as a means of consolidating the Empire into a solid interdependent economic block separated from the rest of the world and its political turmoil by trade barriers; the liberal group, descendants of John Stuart Mill and the Manchester school, look upon the agreements merely as a narrow base of international trade which should be broadened, by a process of bargaining and modification, until it includes all nations willing to trade with the Empire.

From the above outline it can be seen that foreign trade policies vary from one of complete isolation and economic self-containment to a willingness to trade with all nations

which in turn will trade with you. The complete free trade policy of classical economics, like many other concepts of their theoretical edifice, seems to have vanished in the face of present conditions. From a purely abstract theoretical point of view, and given such fundamental bases as free competition, international gold exchange free from government control, mobility of people and capital, and a resolute ignoring of defense needs and national feeling, then complete free trade seems to be the only logical conclusion to which an economist can subscribe. Since these fundamental hypotheses can no longer be accepted today, the classical or neo-classical approach can no longer be considered adequate, and some more realistic method must be adopted. In the past, modifications of complete economic freedom and laissez-faire policies have taken place in America by purely pragmatic actions aimed at satisfying a group whose clamor had grown to political importance. It is not this type of pragmatism which is needed today, although under a democratic regime it appears to be impossible to eliminate it, but a pragmatism which takes the present situation and attempts to evaluate the costs, of any particular course of action, to special groups in society and also to society as a whole, and then balance these against the benefits. The point of view must be one which sees further than the immediate present and takes into consideration all the factors and conditions of the social structure as a whole. Group pressure, political expediency, sovereignty, custom, historical background, and the basis upon which our present national economy functions, must all be taken into consideration.

Today the United States is facing the necessity of formulating some national economic policy; the problem is fundamentally one of choosing the degree and type of social control and degree of individual freedom. Complete individualism has shown its inability to achieve an acceptable balanced harmony between production and consumption, between present profits and future stability. Complete socialization is foreign to American tradition and historical background. Somewhere between these two

extremes must our national economic policy take rest, and our foreign trade policy must be in harmony with, and an integral part of, such a policy. Even more than that, our foreign trade policy will help to determine the type and amount of social control exerted over our internal economy.

CHAPTER I

HISTORICAL BACKGROUND

Early Conflict Between North and South

The present conflict between farmers, particularly the farmers who rely upon foreign outlets for their products, and the industrialists of the East, and later of the North Central areas, goes back to the earliest colonial days and was clearly evident in the conflict which took place during the framing of the constitution.

Dr. Schafer presents an excellent short summary of this early conflict:

> "It is now known historically, not only poetically, that it was the 'embattled farmers' and not the merchants, who 'fired the shot heard around the world.' It was they, supported by laborers and small people of the towns, who supplied the man-power in the movement for independence, while the capitalistic class of merchants stood prevailingly on the opposite side or tried to remain neutral. After the Revolution the farmers for some years were firmly in the saddle, being the popular influence behind the continental congress and the articles of confederation.
>
> "It was the demonstrated inefficiency of the articles, coupled with the excesses of Massachusetts' farmers in their conflict with the capitalist class, that created an opportunity for the latter to score in the making of a new constitution. The political movement of 1785 and 1786 had for its object to amend the articles of confederation in certain respects, especially to enable the government to raise money by uniform duties on imports, to regulate commerce with foreign countries, and between the several states.
>
> "Into the negotiations of state leaders on these high issues broke the clangor of Shays' rebellion in western Massachusetts, an event which struck struck George Washington at Mt. Vernon with amazement and awe."[1]

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[1] Joseph Schafer, *The Social History of American Agriculture.* Macmillan, N.Y. 1936. p. 224.

The farmers were hopelessly in debt and,

> "proposed to 'annihilate all debts, public and private,' have agrarian laws and an unfunded paper currency." [2]

Pennsylvania farmers were not in debt and were selling their wheat at eight shillings and sixpence per bushel in hard money.

> "In Massachusetts old time restraint had been largely put aside and 'an undue use of articles of foreign growth and manufacture' was the result. In a word they had forgotten that they were merely subsistence farmers. In addition, the farmers felt that the mercantile class, while contributing to their distress by promoting luxurious living, failed to pay its share of the taxes to meet the public debt. An issue was thus raised which pitted country against city once more and that in precisely the manner which was destined to become orthodox in history—the hard working farmer, ruined by debt fighting the ogre of capitalism, 'the money power.'" [3]

It is interesting to note that, according to this statement, Father Coughlin's platform follows tradition. Certainly his denunciation of the money powers and his inflationary panacea[4] are almost identical to those of the first rebels. However, the farmers were not able to obtain all they wanted, for,

> "Farmer and capitalist each had a powerful champion in Washington's administration, but the contest which ensued over governmental policies between Jefferson and Hamilton left the latter victorious. With the president's favor and a congress pledged to strong government, Hamilton was able to create the kind of fiscal arrangements that pleased the capitalist class and attached them strongly to the federal government. The acts included funding the national debt, assumption and funding of state debts, establishment of the national bank, a protective tariff on imports, and excise duties." [5]

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[2] Joseph Schafer, *The Social History of American Agriculture*. Cited. p. 224.

[3] *Ibid*., p. 225.

[4] See, Charles E. Coughlin, *The New Deal in Money*. Radio League of the Little Flower, Royal Oak, Michigan. 1933. *Passim*.

[5] Joseph Schafer, *The Social History of American Agriculture*. Cited. p. 226.

This division also led to the foundation of the two great political parties, which have existed to this day through many changes of policies and appeals enlisting support from various regions.

That this interpretation of the first tariff bill of 1789 as being a protective measure, as well as being a means of raising revenue for the federal budget, is correct has been ably demonstrated by Professor Hill,[6] and Professor Taussig approves of this analysis when he states,

> "The first tariff act, that of 1789, was protective in intention and spirit."[7]

This tariff bill was a very mild measure and the duties on imports only reached 5 per cent, but this, it was felt, together with the cost of transportation, would help home industries develop and prevent America becoming an economic dependency of England. Jefferson was the antagonist of protectionism and declared himself in favor of the freest interchange of farm products for manufactured goods offered in exchange by foreign nations with no tariffs to make these goods dearer to the farmer. The planters of the South were solidly behind him, because their agriculture, then as now, depended upon export outlets.

The events taking place in the rest of the world, however, were probably far more significant in determining the course of tariff history in America than the first protective barrier erected by Hamilton in 1789. That same year saw the fall of the Bastille in Paris and three years later, in 1792, Bonaparte declared war upon Britain. It was during this war that American ships were seized and their cargoes confiscated by the British; the sailors were also "pressed" into service for the King despite their American citizenship. This led to the embargo on international trade and was also partly responsible for the war with Britain from June, 1812, to December, 1814. Thus from the em-

[6] William Hill, *The First Stages of the Tariff Policy of the United States.* Publications of the American Economic Association. Vol. VIII, No. 6.

[7] F. W. Taussig, *The Tariff History of the United States.* 8th Edition, Putnam, N.Y. 1931. p. 14.

bargo act of 1807, which was strengthened by the non-intercourse act of 1809, until the Treaty of Ghent in 1814, the United States was virtually isolated from the outside world. During this period the cotton manufacturing industry developed rapidly, woolen mills were built and expanded, and the old established pig iron industry blossomed into a fully fledged iron manufacturing industry.

After the war, imports started to flow in and there was also a very large federal debt. Partly to reduce competition and partly to increase revenues the Tariff Act of 1816 was passed. This was only mildly protective, and the highest rate reached only 20 per cent. Then came the usual post-war depression. In 1818 prices began to fall; the foreign market collapsed; home industries were, in some cases, forced to close their doors; and the price of land declined. All this was partly due to a process of deflation and partly due to foreign goods which came in over the barriers erected in 1816. Again the home market arguments of Hamilton were brought forward. The then western states became strongly protectionary in sentiment, and the New England states, which had become more industrial and less commercial, also tended more and more to support protection. Only the South remained opposed to higher tariffs. It had supported the 1816 act, but the growing importance of cotton and fear of reprisals made them oppose any further increases in duties on imports.

The Tariff of Abominations

In 1819 and 1820 some small increases in tariffs were made, but it was the Act of 1824 which saw Henry Clay's "American System" safely born into the world. Up to this point the tariff had not become a party measure as both parties contained protectionists and free-traders. However, 1825 saw an up-swing in business, and this was thought to be a beneficial result growing from the tariff. When, later, the woolen industry suffered a relapse, it quite naturally started to agitate for protection. This led to the Harrisburg convention of 1827 when manufactur-

ers, newspapermen, and a few politicians met to discuss the tariffs. It was at this meeting that the tariff question really became a party football. The Whigs under Adams became united as political protectionists with Clay as their spokesman. The Democrats, on the other hand, under the leadership of Jackson, were much less united on the tariff question; the South was opposed to higher tariffs, but in New York, Pennsylvania, and Ohio there was considerable sentiment in favor of them. As a result of this political line-up, one of the most amazing accidents of American political intrigue or "log rolling" took place. John Quincy Adams was elected president in 1825, and wanted a high protective tariff. Those Democrats who were in favor of low tariffs then framed a tariff measure which contained high tariffs on raw materials, which the industrial protectionists under Adams wanted to enter free in the expectation that the Adams protectionists would then be forced to vote against it in self-defense. An arrangement was made with the members from the South that all amendments would be blocked. Then, when the bill was voted on, the South was to vote solidly against it, and these votes, together with those of the Whig industrialists, would defeat the bill and the Whigs could be blamed for its failure to carry. Actually, when voted upon, the measure carried because Adams and other northerners voted for it in order to avoid the blame. Thus the "tariff of abominations" came into effect in 1828. It suited nobody and helped nobody. Andrew Jackson came into power the next year and this law was modified by the Act of 1832 which did away with some of the worst "abominations" such as the minimum valuation system, and modified the duties on raw materials. Only Henry Clay defended it to the last.

Following these events, which illustrate dramatically the unintelligent log-rolling process by which the majority of our tariff laws have come into being, the South kept up a continual agitation against the high tariffs and finally, after the nullification ordinance, managed to push through a compromise act in 1833. This act was in force for nine

years but the germ of its own failure was contained within it when it was passed. The act called for a gradual reduction of the high rates until a flat rate of 20 per cent was reached. Unluckily, the early reductions were too small in many cases and it was suddenly realized that by July 1st, 1842, very large reductions in rates would take place particularly in rolled iron and some of the other highly protected manufactures. To prevent this a new tariff act was passed by the Whigs in 1842, just two months after the 20 per cent flat rate came into force.

After this return to high tariffs, the Democrats again came into power and passed the 1846 act which moderated rates considerably on a sane and reasonable basis. Tea, coffee, and other non-competing consumption goods were placed on the free list, and various schedules for the classification of other goods at varying rates were formed. The act was essentially protective in nature and remained in force, with only a minor change in 1857 when rates were lowered because the revenues were too high, until 1861 when the Morrill tariff act was passed. Even under these moderate rates industry had, as Professor Taussig points out, done very well and grown rapidly. The Morrill act introduced specific duties instead of more flexible rates and raised them to the 1846 level, except those for iron and wool which were raised even higher. Almost immediately after the passage of this act the Civil War began.

The Civil War and Tariffs

It is not within the scope of this thesis to discuss how much the tariff question was to blame for the Civil War compared with the questions of slavery and free land. Certainly, however, the tariff question played an important part in creating a deep antagonism between the agricultural exporting South and the protectionist industrial North. The antagonism went back to the tariff of 1824, and it remains to this day. Because of the basic importance of this old controversy to the new economic nationalism of today, it seems advisable to recall the complaints of those

earlier days. The debate on the tariff bill of 1824, when Robert Y. Hayne, of South Carolina, and John Randolph, of Virginia, eloquently presented the case for the South, has been summarized by Dr. Schafer, who writes,

> "Holding it to be self-evident that 'a duty imposed on foreign articles for the express purpose of protecting domestic manufacture is a tax on the consumer,' Hayne contended that the South, exporting $28,500,000 of the nation's $47,000,000 worth of exports and importing an equivalent amount of foreign goods, was not only paying the major part of the expenses of government, but was contributing millions to enrich the northern manufacturers. To him the modern slogan 'the foreigner pays the tax' would have seemed sheer nonsense.
>
> "But that was not all, nor the worst of the effects of that bill. 'It threatens us (the South),' he said, 'with the total loss of our markets for cotton, rice, and tobacco. . . . I will borrow the language of a learned writer on this subject and say, "let gentlemen look to it—they are not threatening us with a system of unjust taxation merely—but with the annihilation of our staple commodities; not with taxation but destruction" . . . . if we do not buy British manufacturers she cannot be our customer, for the products of our country.'
>
> "The South Carolina senator added the prophecy, now so amply fulfilled, that the beneficiaries of the protective system would never be satisfied until the government had prohibited the importation of every article capable of being produced at home; that is until all foreign commerce shall be shut off.
>
> "Hayne's speech was in excellent temper; he made no threats, but warned that the South at the earliest opportunity would move to repeal the tariff act if it should be adopted, as he expected it would be. He did not predict nullification, which came only six years later. It was John Randolph, of Virginia, who played the fire-eater on this occasion. 'If, under a power to regulate trade,' he cried, 'you prevent exportation; if, with the most approved spring lancets you draw the last drop of blood from our veins; if, *secundem artem,* you draw the last shilling from our pockets, what are the checks of the constitution to us? A fig for the constitution! When the scorpion's sting is probing to the quick, shall we stop to chop logic?' "[8]

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[8] Joseph Schafer, *Social History of American Agriculture.* Cited. pp. 246-248.

The act of 1828 caused much talk of nullification, and the whole planting class was deeply stirred. Neither the Compromise of 1833 nor the more reasonable act of 1846 satisfied them, and there was a smoldering resentment against the selfish nationalism of the North. Coupled with this was another important factor; the South had steadily lost its political power and definitely become a minority. This they blamed on the fact that the South had not been given their due share of the federal lands into which they could expand the plantation and slavery system. Again the South objected to the federal government having the right to decide its own powers by the use of its own instrument, the Supreme Court. All these were important factors, but once the Civil War had started the North forgot all else and the plea, "free the slaves," drowned out the cry, "protect our industries."

Compensating Tariff of the Civil War and Failure of Tariff Reform

During the four years of warfare the federal government used every power it possessed to win. Each year new taxes and excise duties were levied to offset the huge debt that rapidly accumulated. For every internal tax levied on industry a similar tax was levied on imports which might compete with the home products, and, where the imports did not compete with a home product, they were taxed to provide revenue. The men who made these laws were all protectionists; and tariffs were raised to any figure suggested by interested parties. They were considered emergency measures to raise money and offset the taxes on production levied on home manufactures. After the war internal taxes were dropped almost immediately and the debt was rapidly repaid, but the tariffs were kept up, and what were originally emergency measures became permanent. This was partly due to the urgency of other matters but not entirely so because a tariff bill was introduced and defeated in 1867, while in 1870 some of the revenue tariffs were lowered and a few of the tariffs on

industrial goods were raised. In 1872 there was an effort at tariff reform partly due to the Granger movement and a realization that the farmer's plight resulted from having to sell his products at extremely low prices and having to buy manufactured goods at extremely high ones. Also, the federal income had once again exceeded its needs, and all parties were in favor of some reduction. As a result the tariff act of 1872 was passed. This act reduced mainly the rates on non-competing revenue producing imports such as tea and coffee, which were placed on the free list, but only reduced the protective tariffs by 10 per cent. The bill as introduced in the house was extremely radical but was not acceptable to the senate which presented a compromise bill. The final result was the continuation of very high protective rates. Then, three years later in 1875, even the 10 per cent reduction was repealed. After this some attempts at tariff reform were made in 1876, 1878, and 1879, but they all proved abortive, and no real change took place. In 1882 a tariff commission was appointed, but the emergency measures of the Civil War had been in force, with only minor changes, for nearly twenty years and were now considered part of the "American system." This fact, together with the fact that the house and the commission was comprised of protectionists, prevented any real modification of the protective system. An act was passed in 1883 which used many of the recommendations of the commission and attempted to bring order out of chaos. The rates on revenue-producing imports were further reduced, but some of the wool rates and steel rates were raised still higher. After this act six more attempts were made to consider reforms, but they were all defeated. Then, in 1887, President Cleveland urged a reduction in tariffs, and this became a plank in the Democratic platform. To show good faith the Democrats prepared a bill reducing tariffs, and the Republicans proposed one increasing them, and they went to the country in 1888. Harrison was elected on the Republican ticket, and the famous, or infamous, depending upon which side of the fence one was on, McKinley tariff act of 1890 was passed.

This raised protective tariffs still higher and marks the peak, up to that time, of high protectionism existing since 1861.

At the next election the Democrats won, but they were not in a strong position because of the split in their ranks over the silver question, and they were forced to accept the sweeping alterations by the Senate of their more liberal bill. The result was a poor bill, full of anomalies which were the product of a great deal of very high pressure log-rolling and trading in the senate committee and in the joint conference committee of both houses.[9] President Cleveland was so disgusted with this monstrosity delivered by the senate that he refused to sign it, and it became a law without his signature. The honor of this peculiarity is the only honor it possesses.

The next election saw the tables completely reversed. The Democrats were defeated on the silver coinage question, and the Republicans came back into power and immediately passed a new tariff act which had been already prepared by the party committee before the Congress met. This was the tariff act of 1897. It ushered in another era of extreme protection, and raised rates to further "protect" industries, even though they were flourishing under the old rates, where any competing foreign goods came in. This act continued in force until some modifications were made in 1909 by the Republican party which was still in power. In the passage of the act the same log-rolling and vote-trading took place and rates which were non-effective were lowered while the ones protecting industry were retained. However, the old argument of protecting infant industries seemed rather weak when some of the infants were as lusty as the steel trust, and a new argument came to the fore. "Equalization of costs of production at home and abroad" was the new slogan. Of course this really means nothing but extreme economic nationalism in the

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[9] For a full description of the process of log-rolling see Professor Taussig's description of the passage of this act and others in his book, *The Tariff History of the United States*. Cited. p. 491 and *passim*.

end, because, as Professor Taussig points out,[10] anything, even "pineapples in Maine," can be produced if the tariff is raised high enough to really equalize the costs of production. The rise of the "pauper labor" argument also took place at this time, and it was stated that the American workman had to be protected from competition by the poor in other nations; there was no mention of relative efficiency or comparison of the value of the goods produced by an hour of American labor, with its machinery and skill, and the value produced by the poorer paid European workers. The need to protect labor by a tariff seemed almost self-evident. However, living costs had continued to rise steadily, and even the working man began to question the wisdom of keeping his wages up at the expense of continually increasing the prices of the goods he purchased. He began to realize that wage increases always lagged behind a rise in prices; tariffs were being questioned. In 1910 and 1912 the Democratic party was once again returned to power.

Effects of the 1913 Moderate Tariff Bill Nullified by War

Under the leadership of President Wilson a very sound and moderate tariff bill was prepared. The rates were on an ad valorem basis and the reductions were not radical in nature. This bill was passed in 1913 and remained in force for nine years. The war of 1914-18, however, prevented this moderate tariff policy from ever having a full trial. The war was equivalent to complete protection and roused nationalistic feeling very strongly. During the war many industries had developed, or been born, and there was a natural desire to raise and nourish these "war babies." Prices of farm products declined heavily between 1920 and 1921, and the farmers were crying for help. The farmers' organizations were lobbying for tariff protection and were committed to support increased tariff rates. Once again it seemed a panacea. In the 1920 elections the Democratic

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[10] F. W. Taussig, *The Tariff History of the United States*. Cited. p. 364.

party was defeated, and the Republican protectionists came into power once more.

One of the first actions of the new party in power was to pass the emergency tariff of 1921 while they prepared the new tariff act which was passed in 1922. This act put tariffs above the level of the 1890, 1897, and 1909 acts. Ad valorem duties were placed on goods and valuations of these goods were to be made by the American customs authorities.

The President was given power to raise or lower tariffs as much as 50 per cent upon recommendations of the tariff commission, which was supposed to base its findings on the comparative costs of production in the United States and those in various foreign countries. This measuring of comparative costs in itself proved to be an impossible task. The commissioners were willing to attempt it, and, as was expected, this provided a basis for raising the tariffs still higher. Obviously costs must be lower in a country which could manufacture anything and still sell it in America at a profit in spite of the high tariff. It seemed as though the extreme goal of protection had been reached at last.

Agricultural Surpluses and the Smoot-Hawley Act

Unhappily, farm prices did not rise very greatly during the years that followed. Until the fall of 1920 the index of farm prices had remained above 200 (base 1910-14 = 100) and by the summer of 1921 they had declined to almost 100. During the years following, until December, 1929, the index of farm prices for the United States as a whole fluctuated between 125 and 150. These increases in farm prices were not sufficient to enable the farmer to meet his added costs resulting from increased prices of the things he bought, and the continuing high charges for taxes and interest. Agitation continued, and the McNary-Haugen bill was passed by congress but vetoed twice by President Coolidge. The problem was stated to be a "surplus" problem, and in his veto message President Coolidge stated that the bill would not reduce the "surplus" but, by raising

prices, would tend to stimulate production and further aggravate the problem. Then in 1929 the Federal Farm Board was created to assist in the orderly marketing of farm products and to aid in preventing and controlling surpluses in any agricultural commodity. The inability of the Farm Board to accomplish its assigned task is a matter of history. Prices began to decline almost immediately, the Farm Board suffered great losses on its purchases and was forced to cease its attempt to maintain prices by buying up the surpluses. Then, in 1930, the administration again resorted to the standard expedient of the past, and passed the Smoot-Hawley tariff.

Of all the tariffs passed this one is probably the most questionable. The main characteristic of the act was its utter futility. The act provided for a general increase of rates all along the line, and was an effort to plug all gaps. Trade between nations had declined. The high tariff act of 1922 had cut down imports and to some extent had forced European nations to exclude American agricultural commodities. To raise tariffs again when trade was already dying was simply hastening its death. To raise tariffs to protect agricultural products dependent upon exports was not even an intelligent gesture of sympathy because the repercussions were serious. Canada retaliated by turning from the United States to Great Britain for her trade concessions and promoted the Ottawa Trade Agreements. Great Britain raised its tariffs on wheat, butter, cheese, fruits, milk products, and poultry products, to mention a few of the items. The Canadian products were imported on a preferential basis.

The McNary-Haugen equalization bill was vetoed because it would make the problem of surpluses greater; the 1930 tariff act was passed in spite of the protests of most economists of note in the United States. Apparently the administration had not realized that "surpluses" were relative to sales, and that by reducing sales, they made the "surpluses" greater even at very low prices. Professor Taussig states that the act was without "rhyme or reason."

It was held by many authorities to be not only unintelligent but vicious in its results.

When the act was in committee the usual log-rolling took place. It is stated:

> "In the handling of the sugar duty during the sessions of 1929-30 one thing was even more clear. The supposed underlying principle of protection—the equalization of competitive conditions, through duties based on differences of cost—was in this case quite ignored. The sugar producers, especially the beet-sugar people, asked all they thought it possible to get; the Republicans in House and Senate gave them more or less grudgingly, what seemed necessary to fulfill campaign pledges and to hold their party associates in line. The final rate was merely the result of give and take, maneuvering and compromise." [11]

The rates on cotton manufactured goods were raised from some 45 per cent to 62½ per cent and yet,

> "The real cause of trouble for the manufacture of most grades of cotton—indeed of all grades that weigh heavily in the domestic industry—was the extraordinary growth in the South; a semi-artificial and almost insensate growth, much promoted by a use of night-work so widespread as to shame our civilization. For the finer grades, the competition of rayon goods and the fashion of scant clothes for women were the main factors in the depression; and no advance of duties could be a remedy." [12]

The Trend Toward Economic Nationalism

However important these individual examples may be, there was something even more important, something fundamental and closely related to the whole concept of the future of this nation. In his discussion of the increase in rates on imported meats, a small quantity of which entered the eastern markets from Argentina, Professor Taussig states:

> "A new stage in economic development was setting in: the growing-up of the country to its agricultural capacities. Only the very first steps in this transition were now entered

[11] F. W. Taussig, *The Tariff History of the United States.* Cited. p. 501.
[12] *Ibid.*, p. 502.

> upon, and years were likely to elapse before it went far. But the question began to loom up whether the United States was to adopt a policy not merely of fostering manufactures and a varied industrial structure, but one of complete self-sufficiency; a question of wider concern, economic, social, and international, than anything directly suggested or even considered in the debates." [13]

Since that was written in 1931 this question has become more and more important; a special committee was formed to propagate the idea of an "America self-contained." Pamphlets, magazine and newspaper articles, and books have been written upholding this point of view. One prominent publisher of a number of daily newspapers has nailed at the head of his editorial columns the slogan "Buy American."[14] This literature is being widely circulated particularly amongst the farmers and, in spite of the remarks of many economists that the United States will never accept such a policy, history seems to indicate that just such a policy would be the logical result of the trend of our past protectionism, aiming at the "equalization of competitive conditions" through the application of high enough tariffs to insure that all our manufacturers and farmers be placed in positions to make a profit.

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[13] F. W. Taussig, *The Tariff History of the United States*. Cited. p. 510.

[14] William Randolph Hearst.

CHAPTER II

PRICE PARITY FOR AGRICULTURAL PRODUCTS

Rise of the Problem of Equalization and Growth of the Price Parity Concept

From the brief outline of tariff history presented in the previous chapter, certain very basic facts emerge. The tariff laws of the United States were largely the products of industrial pressure groups which aimed at obtaining a protective wall behind which they could have a monopoly of the home market free from foreign competition. The result of these laws, together with the periods of economic isolation which occurred because of wars or embargoes, was a steady drift towards economic nationalism. The peak of this rather blind movement was reached when the Smoot-Hawley tariff bill was passed in 1930. There was, however, a new problem which developed after 1922; it was the problem of giving to agriculture some form of assistance which would "equalize" the assistance rendered to industry by the tariff. As we have seen, the idea of equalization by subsidizing exports, and the maintenance of the home market price above world prices by a tariff, was rejected; the Farm Board failed to cope with the growing surpluses; and the increases in tariffs also failed to do anything to help the farmer who was forced to sell on a world market and buy on a highly protected home market. This basic problem was the logical result of the gradual growth of economic nationalism; after 1922 it grew in importance and various phrases were used to express the desires of the farmers; "equality for agriculture," "making

the tariff effective for the farmer," "agricultural protection," "equality of prices between industry and agriculture," and "price parity for industry and agriculture" were some of the more common ones. This basic problem, and the effect of the depression in making it more intense are discussed more fully in the following pages.

What has come to be called the second post-war depression began with the securities crash of October, 1929. From that date on prices began to decline until it seemed that the bottom would never be reached. The index of United States farm prices declined from 146 in 1929 to 65 in 1932; gross farm income fell from 11.9 billions of dollars in 1929 to 5.3 billions in 1932. The estimated value of farm real estate fell from an index of 116 in 1929 to 73 in 1933,[1] and the number of forced sales and related defaults jumped from 19.5 per 1,000 farms in 1929 to 54.1 per 1,000 in 1933.[2] And, for the farmer, conditions were even worse than these figures alone indicate because the prices of articles the farmers bought declined from an index of 153 in 1929 to only 107 in 1932 and never fell below that figure.[3] Bank failures, bankruptcies, and unemployment reached unprecedented heights by 1932. It was under these conditions that the Democratic administration took over control of the national government.

The new administration immediately attacked the most urgent problems. A bank moratorium was called to prevent more failures through the masses drawing out all their money in panic, and the Federal Deposit Insurance Corporation was organized to guarantee all deposits up to $5,000. Direct relief was organized for the unemployed, and a policy of public works inaugurated. These measures, however, did not remedy the situation of the farmers. The administration felt that the only method of helping them

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[1] U.S.D.A., *Agricultural Statistics.* 1936. p. 350.

[2] U.S.D.A., *Yearbook of Agriculture.* 1933. p. 733, and *Agricultural Statistics.* 1936. p. 351.

[3] See Tables 1 and 2, Appendix A, for complete annual figures on income and prices from 1910 to 1935.

was to restore parity between farm prices and industrial prices. This conception of price parity meant that goods the farmers bought and the goods the farmers produced must exchange at a ratio which would allow the farmer to enjoy a reasonable standard of living or at least prevent him losing his farm through inability to pay his current expenses. In the Agricultural Adjustment Act the term used is "fair exchange value" and is defined in section 9 (c) as follows:

> ". . . . the fair exchange value of a commodity shall be the price therefor that will give the commodity the same purchasing power, with respect to articles farmers buy, as such commodity had during the base period specified in Section 2; and the current average farm price and the fair exchange value shall be ascertained by the Secretary of Agriculture from available statistics of the Department of Agriculture."

The base period referred to in the above passage was the pre-war period from August, 1909, to July, 1914, for all agricultural commodities except tobacco, the base period for which was taken from August, 1919, to July, 1929.

This problem of inequality between prices the farmer receives and prices he pays was not a recent problem originating from the general depression, but went back to 1921 when the agricultural depression first started; from that year on farm prices never reached parity with industrial prices, and the further widening of the gap from 1930 on was but an intensification of an earlier problem.[4]

Methods of Attaining Price Parity

Theoretically, there were several methods which might have been used to restore price parity to the farmer. Industrial prices might have been further reduced by allowing deflation to continue through bankruptcies, capital reorganization, and lower wages. A reduction of tariffs would have exerted a temporary tendency, at least, in

[4] See Table 2, Appendix A, for ratio of prices received to prices paid, 1910 to 1934.

forcing the deflation to the necessary limit. This would have caused a great deal of suffering; reductions in wages would have been opposed by strikes, unemployment would have temporarily increased, and innumerable owners of securities would have suffered permanent losses. In the light of the feelings of the people at that time any such approach would probably have been political suicide, even though it might have been the best, from a purely economic point of view, as some economists maintain.

A second possibility was to resort to devaluation of the dollar in terms of gold so that the prices of exported commodities would have been lowered in terms of foreign currency and exports stimulated. However, to be successful, this would mean lowering tariffs in order to allow imports of goods to pay for the exports and the interest and capital repayments due on American investments abroad. This also would have had the effect of preventing the prices of manufactured goods rising as rapidly and to the same extent that the exported farm products would rise; it would also have provided an indirect way of decreasing wages.

A third method possible was to apply to agriculture the technique and methods of industry in relating supply to demand by ceasing or curtailing production as soon as the price falls below the point where it is profitable to produce. This was the method adopted by the administration, together with the devaluation of the dollar, and, because of its implications to foreign trade, it will be considered in greater detail in the next chapter.

A fourth method of achieving price parity, which was advocated by many farm organizations, was some form of subsidized exportation of farm surpluses. Under these plans the home market prices would be upheld by high tariffs but no production control would be necessary because all surplus farm products would be sold abroad at world prices and the losses made up to the farmer by subsidies raised by internal taxes or import duties. The main difficulty with this type of suggestion is the fact that foreign nations have anti-dumping laws and refuse to

admit goods being sold to them at a lower price than that prevailing in the country of origin.

A fifth possibility was the use of direct subsidies to the farmer to make up the deficiency of his income without attempting to increase his prices by a reduction in production. Similarly, industrial prices might have been reduced to a level comparable to that of agriculture if the government had directly subsidized their production. Before discussing any of these methods in their relationship to the actual measures adopted by the President and his advisers in their attempts to achieve price parity for farm products, it is necessary to review the fundamental differences between agricultural production and industrial production as they are related to the price structure within which they work.

Responses of Industry and Agriculture to the Depression

Table 1 shows clearly how production in industry and agriculture responded to the depression prices.

TABLE 1

INDEX NUMBERS OF PRICES AND PRODUCTION OF AGRICULTURE AND INDUSTRY. U.S.A. 1929-32*

Year	Industrial		Agricultural	
	Production	Prices	Production	Prices
1929	100	100	100	100
1930	81	93	98	86
1931	68	82	103	60
1932	54	77	95	45

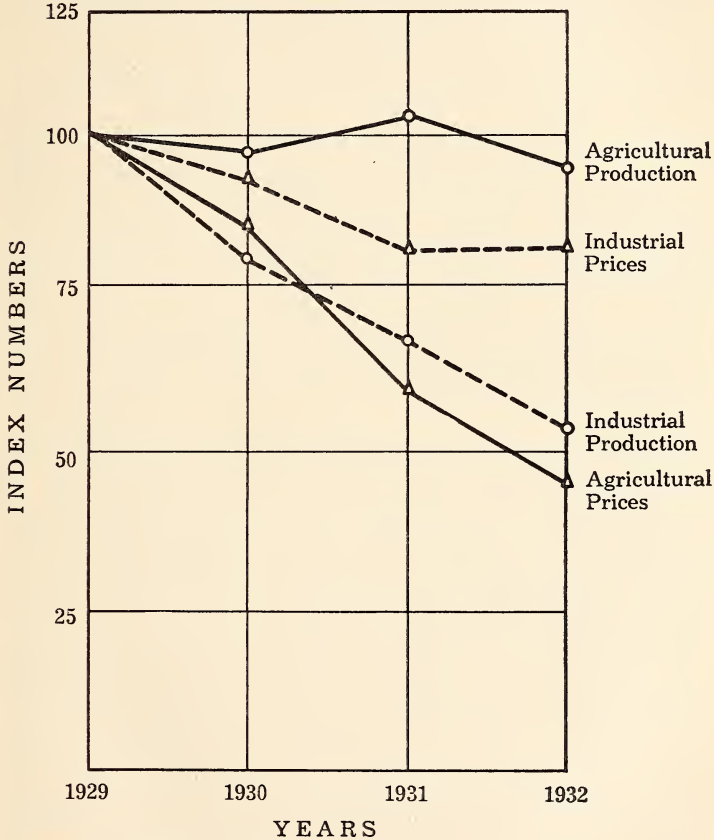
* Department of Agriculture and Markets; Wisconsin. *Wisconsin Agriculture.* Bulletin 150, p. 12, table 10. (Based on U.S.D.A. and Federal Reserve Board estimates).

In industry production declined almost 50 per cent during this four-year period, but prices fell only 25 per cent. Agriculture, on the other hand, shows only a very slight decrease in production while prices fell 55 per cent. These figures are shown graphically on Chart 1. The Federal

Reserve Board index of factory employment shows a decline from 101 in 1929 to 62 in 1932, while its index of

CHART I

INDEX NUMBERS OF PRICES AND PRODUCTION IN INDUSTRY AND AGRICULTURE, U.S.A. 1929-32
(1929 = 100) *



* Based on Table 1 in the text.

factory payrolls fell from 108 in 1929 to 45 in 1932. In other words, industry reduced production, employment, and wages as prices fell below the point where it was

profitable to produce, or when continued production meant a loss.

Table 2 indicates the trend of production and prices of cotton during this same four-year period.

TABLE 2

FERTILIZER USED, FARM PRICES AND PRODUCTION OF COTTON, U.S.A. 1929-1932

YEAR	FERTILIZER* USED IN U.S.A. (1,000 tons)	COTTON†		
		In Cultivation July 1st (1,000 acres)	Yield (lbs. per acres)	Price (cents per lb.)
1929........	8,079	44,458	164	16.8
1930........	8,164	43,339	157	9.5
1931........	6,306	39,109	211	5.7
1932........	4,369	36,542	173	6.5

* U.S.D.A., *Yearbook of Agriculture.* 1935. p. 734, table 529.
† *Ibid.*, p. 426, table 113.

Production in acres declined in 1931, but the yield for that year was very high, and production of cotton increased about 3 million bales. The figures for the quantity of fertilizer used indicates what actually happens; the farmer reduces all his cash expenditures and does more work himself. This may result in some slight decrease in productivity and varies with different products. For example, while cotton acreage declined in the southern states milk production increased. (The relationship of this increase to the tariffs is discussed further in chapter VIII). In Wisconsin, where over 50 per cent of farm income comes from milk sales, production remained fairly constant through the 1929-1932 period, but income declined rapidly as shown in table 3.

The very close relationship of the Wisconsin index of cash income on the farm and the U.S.D.A. index of farm prices for the United States shows the close relationship between Wisconsin's specialized dairy farming and the

agriculture of the nation as a whole. Wheat acreage declined from 63 millions in 1929 to 62.5 millions in 1930, and to 57 millions of acres in 1931 and '32. Corn on the other

TABLE 3

INDEX NUMBERS OF FARM INCOME AND PRODUCTION. WISCONSIN 1929-32*

YEAR	INDEX NUMBERS 1929 = 100	
	Physical Production	Cash Income
1929	100	100
1930	101	82
1931	102	59
1932	97	42

* Department of Agriculture and Markets, Wisconsin. *Wisconsin Agriculture.* Bul. 150, p. 4, table 3. (Figures adjusted to new base, 1929 = 100).

hand increased. From this cursory glance at the available figures it seems reasonable to conclude that low prices do not stimulate a general increase in production, as some have suggested, but may cause shifts from one crop to another, and the net result appears to be a slight increase the first year after low prices have prevailed and a slight decrease following the second year of low prices. It does not alter the fact, however, that agriculture is fundamentally different from industry in its ability to meet price declines by a reduced production. It is on this basis that the so-called "economics of scarcity" have been applied to agriculture. After all is said and done, our profit system is definitely a system based upon scarcity, and the farmer has just as much right to reduce production, if it pays him, as the farm implement factories have.

Differences Between Agriculture and Industry in Ability to Benefit from Production Control

The basic question is: Does it pay the farmer to curtail production, in the same way that it pays industry? The answer to the question in this form must be in the negative,

and the reasons that it does not pay agriculture to reduce its output, as it appears to pay industry, leads to a consideration of a further factor which is basically different in agriculture and industry. In agriculture most of the work is performed by the farm family, and hired labor forms a very small part of production expenses. In industry as a whole, wages and salaries form some 60 per cent of the costs of production. Corporate industry can discharge its men and reduce wages and output. The cost of maintaining these unemployed then falls upon the state. As previously stated, the index of factory payrolls declined from 108 in 1929 to 45 in 1932. This is a greater decline than took place in employment or in production. The farmer, on the other hand, by reducing production, reduces his own employement and his own wages. He cannot discharge himself for a month and go to the state for unemployment relief. Also the main bulk of his costs, particularly money costs, will continue; taxes, interest, and debt payments, together with articles he must buy remain at relatively high levels. Where you have a small family business, you find similar conditions to those prevailing on the farm. The storekeeper and his family keep on working; they may "lay off" the clerk and the family will do all the work, but they do not willingly close up their shops. From labor's point of view, curtailment of production and reductions in wages mean idleness and a subsistence level of living. For agriculture to take the same steps and hold up the price of food means even greater misery for labor and a declining demand for farm produce, particularly commodities with a somewhat elastic demand, such as butter, milk, eggs, fruit, and meat. When it is said that it "pays" industry to curtail production, the statement refers to industry purely as a group of stockholders, whose interest is in dividends and interest rates. If one considers industry primarily as a group of human beings who are making a living by producing, and realize that "curtailment" means to the workers simply a loss of jobs and wages, with the corresponding loss of their purchasing power causing still greater curtailment in an ever widen-

ing and tragic spiral downwards, then it is doubtful if one would even claim for industry that it "pays" to reduce production. Over a short period it appears to pay the owners, but even this may be questioned. Agriculture and industry, therefore, differ not only in the way production is curtailed in response to a price decline but also in their ability to benefit financially by curtailment of production. The difficulty in the past has always been in making the farmers co-operate as the Burley Tobacco Association discovered; even after they developed the "night rider" system and raised prices, increased production in other regions soon forced them down again.

This incident leads to the consideration of a further factor which is in part responsible for the difference in price levels between the things a farmer buys and the products he sells. It is almost an impossibility for a farmer or a group of farmers to create and hold a monopoly of a special product. There are not patents issued for certain methods of cultivation, and only a very few have been issued for varieties of plants; where patents have been issued for special varieties of apples and berries, these have been held by companies which make their income from propagating and selling stock for planting, so that in time any extra price the first farmers received from the crop is gradually reduced as more and more stock is sold. There are also a few areas severely limited by natural environment, where specialized crops are grown, such as cranberry bogs and the sugar cane areas; these crops, however, are subject to competition from other crops which can easily take their places. Industry, on the other hand, presents many examples of monopolies which cannot be broken down by competition or by replacement. The railway, electric power, water, and telephone companies are typical of this type of industry and, for this reason, most of those mentioned have become subject to government regulations in fixing the rates which they may charge to consumers. This very fact, of legal approval of the rates in force, prevents any rapid adjustment downwards in times of depression. Besides these natural monopolies

there are also man-made combines which, by use of "gentleman's agreements," are able to fix prices and maintain them against any competition which may spring up within the nation. It is here that tariffs play a vital part in helping some industries to maintain prices at a higher level than is warranted by actual costs of production. Even where there is no monopoly the tariff allows inefficient firms to produce at high costs while the more efficient companies are able to make large profits. Only industries that depend upon export outlets for a large part of their product cannot be protected in this way.

A further basic difference between industry and agriculture is the dependency of the latter upon weather conditions. Many claim that this is a more fundamental distinction than any of those previously mentioned, and that it is the one factor which makes any real regulation of agricultural prices by production control difficult, if not impossible. In his 1927 report the Secretary of Agriculture makes the following statement:

> "Variations in production from year to year are due to changes in acreage and to variations in yield. Since the latter come mainly from seasonal conditions, they are largely beyond the farmer's control. From 1905 to 1925 variations in yield per acre accounted for 60 per cent of the fluctuations in cotton production, with the remaining 40 per cent due to variations in acreage. Variations in production due to yield per acre of certain other crops were: corn, 85 per cent; oats, 63 per cent; and tame hay, 47 per cent. It is obvious from these figures that fluctuations in production, with resulting variations in prices, are a hazard of farming, which is to a large degree unavoidable." [5]

Contrasting with this, industry can control its output not only from year to year but from month to month. In many industries, where style or change in design is important, production in quantities is not started until actual orders are received from wholesalers or retailers who have inspected the samples which were sent out earlier. Al-

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[5] Quoted from George N. Peek *Why Quit Our Own?* D. Van Nostrand Co., N.Y. 1936. p. 44.

though the A.A.A. has demonstrated that production curtailment for agriculture is possible when subsidized, it is very difficult to say how much of the increase in prices was due to it and how much was due to drought and the devaluation of the dollar.

It is these basic inequalities in ability to control prices which make the problem of price parity between agriculture and industry so difficult to solve, and it is the realization of the part that tariff protection has played in developing them that has led the farmers and their leaders to demand "protection" for the farmers equal to the "protection" given to the industrialists by the tariff.

Relationship of Price Rigidity to Consumption, Production, and the Depression

There is no doubt that this third method of production curtailment would probably succeed in bringing farm prices up to parity, but it would mean a complete control of output by the farmers and also, finally, a complete control of output and prices of industrial goods. To assume that agricultural production alone would have to be controlled seems impossible in the light of recent facts brought out by the Brookings Institution in its four volumes, *America's Capacity to Produce, America's Capacity to Consume, The Formation of Capital,* and *Income and Economic Progress.* An excellent digest of the main facts brought out in these studies has been presented by Dr. Moulton, who writes:

> "Roughly speaking it was found that the country could have produced 20 per cent more than it did in 1929—or ninety-six instead of eighty-one billion dollars worth. And it was further found that this proportion of non-utilization had remained fairly constant over the thirty years preceding. The 1929 performance, moreover, was that of the productive mechanism at its best. At its worst, in 1932, the volume of goods and services produced was about one-third less than the production of 1929." [6]

[6] Harold G. Moulton, *Economic Progress Without Economic Revolution.* Fortune, Vol. XII, No. 5. Nov., 1935. Reprint by the Maurice and Laura Falk Foundation of Pittsburgh, Pa. Page references are to the reprint in pamphlet form. 1935, Dec. p. 8.

He then goes on to show that this excess plant was not idle as a result of all the wants of the people being satisfied, because some 70 per cent of the families of the United States had incomes under $2,500 a year and could not afford to buy the conveniences and luxuries they would like to have. This leads to the conclusion that there is no real excess of production in relation to the wants of the people. Potential consumption is enormous.

This conclusion led to an examination of the theoretical assumption that whether the income was saved by a few capitalists or evenly distributed amongst the masses made very little difference because the amount saved went into the production of capital goods rather than consumption goods, and thus flowed out again in wages and indirectly placed purchasing power in the hands of the masses. Discussing the results of this investigation he states:

> "Briefly they came to this: the saving of money does not per se create a demand for capital goods. All it does is to furnish funds with which business enterprises *may* employ labor and materials in the construction of new plant and and equipment if the expansion looks profitable. But, by and large (business taken from competitors aside), expansion will only be profitable if the total market for the goods to be manufactured is also expanding. And the total market will only expand during a period of expanding consumptive demand. If an increased percentage of the national income is diverted to savings channels, the flow of funds into consumptive channels may not be of sufficient magnitude to make it profitable for all the funds which have been diverted to investment channels to be profitably employed in the construction of new plant and equipment." [7]

Such an excess flow of savings into investments is a recent phenomenon in the United States because before the World War we used to borrow considerable capital from abroad. During the last twenty years, however,

> ". . . . the volume of money savings flowing to investment channels has so greatly increased that the balance has been

[7] H. G. Moulton, *Economic Progress Without Economic Revolution*. Cited. p. 13.

> shifted, and a maladjustment of basic significance has developed. Our capacity to produce consumer goods has been chronically in excess of the amount which consumers are able to take off the markets; and this situation is attributable to the increasing proportion of the total income which is diverted to savings channels. The result is a chronic inability to find market outlets adequate to absorb our full productive capacity."[8]

Dr. Moulton then criticized the current ideas regarding reduction of hours of work and "share the wealth" concept, all of which appear to be futile because the nation needs more production and has not much wealth to share. Also the use of the income tax, as a means of effecting a redistribution of wealth, is criticized because it may provide parks when people need food and shelter. Increasing money wages of workers is also criticized as not being a certain enough method. Historically he shows real wages have tended upwards but the progress has been "slow and halting" because employers all try to keep wages low in order to gain a competitive advantage. A further criticism of this method is that only the 7 per cent of the workers fully organized in unions can achieve real advance, and agriculture does not share in the benefits.

Regarding the subject at present under consideration, he condemns the restriction of agricultural output as a means of achieving price parity and states:

> "Even though price equilibrium might be established by this method, it would nevertheless be at the sacrifice of wealth production. . . . . it is a method which if pursued as a long-run policy can result only in stationary or declining standards of living."[9]

The final solution must lie in the progressive reduction of the prices of manufactured goods. The fact, that industry has not passed on the benefits of increased efficiency and technical advances to the consumer in the form

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[8] H. G. Moulton, *Economic Progress Without Economic Revolution.* Cited. p. 15.

[9] *Ibid.*, p. 33.

of lower prices, has caused the present separation between purchasing power and production. This conclusion is brought about by the consideration of the following facts. During the 1920 to 1930 period the efficiency of the gainfully employed in all industry increased by 18 per cent. In manufacturing industries wage earners' productivity was increased by more than 25 per cent. During this same period wholesale prices of manufactured articles declined only 5 per cent and retail prices did not decline at all. No benefits reached the ultimate consumer. The wage rate increase absorbed only 40 per cent, at the most, of this increased productivity and,

> "It seems clear that the method of passing on benefits of technological progress through price reductions was largely in suspense during the post-war expansion period." [10]

This tendency to price stabilization goes back 50 years and is the result of monopolies, cartels, and trade association practices. Regarding trade associations, Dr. Moulton states:

> "These associations, unlike consolidations, have generally been viewed with favor by the U. S. Government as a means of stabilizing business. Indeed, under the Hoover regime, the stabilization of prices was regarded as a means of preventing market disorganization and hence was a key to stable production and permanent prosperity." [11]

The next question that must be asked is: Why were prices not reduced? Between 1870 and 1900 prices were reduced greatly and almost amazingly in some cases. Pig iron fell from $32.23 a ton to $19.98 and steel rails from $106.79 a ton to $32.29. Cotton prints fell from 12.41 cents a yard to 5 cents and sheeting from 14.58 cents to 7 cents during the same 30-year period! Between 1922 and 1929 the rate of profit upon capital investment trended moderately upward at about 1 per cent annually, and capital increased from 37.4 billions to 52.7 billions. In 1922, 7.6 per

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[10] H. G. Moulton, *Economic Progress Without Economic Revolution.* Cited. p. 36.

[11] *Ibid.* p. 37.

cent was the average return to capital, and in 1929 it was 9.2 per cent. These figures include losses from failures as well as profits. When 2,046 corporations covering 62 industries were selected, on the basis of the decisive role they played in price determination, it was found that the rate of profit increase was 2.3 per cent per annum. In 1929 the actual return on capital was 12.8 per cent. Associated with these facts the investigators also found that the surpluses set aside remained fairly stable, that earnings disbursed as cash dividends tended to increase, and that the funds derived from individual savings were much greater than were required for business expansion. There was also a too great, rather than a too small, amount of bank credit and,

> "There was a redundance rather than a deficiency of investment money." [12]

The final conclusion drawn by Dr. Moulton is that prices should have been lowered but,

> ". . . . there has also been a disastrous counter tendency for the individual business man to attempt to 'freeze' a situation of short-run advantage by limiting the fruits of progress too largely to himself rather than passing them on freely to all participants in the process—laborers and the whole mass of consumers." [13]

To work out some scheme of price reduction is "today's challenge to every American business man." It almost sounds like challenging the lion to lie down with the lamb, and presupposes that a long established social attitude may easily and rapidly change. It seems hardly fair to blame the business man when, in our modern corporations, it is the entrepreneur making the highest immediate profits who gets the job!

It is interesting to note that an entirely unrelated study

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[12] H. G. Moulton, *Economic Progress Without Economic Revolution*. Cited. p. 41.

[13] H. G. Moulton, *Economic Progress Without Economic Revolution*. Cited. p. 45.

by Prof. A. B. Adams finds identical causes of the present collapse. He states:

> "The Industrial Revolution, which began in England more than one hundred and fifty years ago, is the direct cause of our Economic Revolution of today. From its beginning up to the present time, the Industrial Revolution has produced such great changes in our methods of production and in the manner of operating our industrial system that we have increased our power of production more rapidly than we have increased our power of consumption. We increased our savings even more rapidly than we expanded our production, but we did not increase real wages of laborers as rapidly as we did production. The Industral Revolution caused profits to rise and permitted the accumulation of enormous private fortunes and the concentration of the bulk of the wealth of the nation into the hands of a very small percentage of the total population. It brought about a situation in which more than 85 per cent of our population is dependent almost wholly upon daily wages or salaries for their daily bread. [Seeing that 25 to 30 per cent of our population is "rural farm" I question this statement—Author.] As a resut of the economic changes produced by the Industrial Revolution, the competitive forces determining wages more and more favored the employers; consequently, wage payments were not increased proportionately with the increase in the value of the goods produced, and the great mass of the consumers did not receive increases in their incomes equal to the increase in the value of the finished consumers' goods offered for sale. Therefore we reached the stage in our national economic development where there was a surplus of capital and a shortage of consumers' purchasing power. To relieve this situation, it has been necessary since 1929 for us to have a revolution in our business system; the sudden necessary changes in the business system constitute the present Economic Revolution." [14]

The solution he suggests is not just an appeal to the industrialists to reduce prices but,

> "The only way to re-establish an equilibrium between production and consumption is to abolish the laissez-faire policy in business and to substitute in its stead a government control scheme. By no other plan can we bring about the necessary increases in wages and reductions in payments

[14] H. B. Adams, *Our Economic Revolution*. University of Oklahoma Press. 1934. p. 155.

for the use of capital; we must readjust the distribution of the national money income in order to establish and to maintain an economic equilibrium in our industrial life."[15]

The problem of low agricultural prices he would solve, not by renting acres out of production, but by outright buying up of the excess land and turning it into parks and residential areas, thus achieving an increased farm income through higher prices due to production control. Hours of labor would be reduced in order to reduce the number of unemployed, and the United States would be forced to enter into an era of complete economic nationalism to maintain these price levels brought about by control. Only goods too expensive or impossible to produce would be imported, and only goods in which America had a monopoly or great natural advantage in production would be exported. Regardless of the soundness of his conclusions, it seems that at least Professor Adams faces the facts courageously and follows through his theory with specific recommendations, while Dr. Moulton, although presenting a much more exhaustive and accurate analysis, does not fully develop the implications of the facts discovered. He does not discuss the problem of tariffs and the part they have played in creating the present impasse nor the part they might play in solving it. He believes that a program of action must be worked out gradually. This may be true, but we are the poorer from not having at least tentative suggestions of how price reductions may be achieved, and the type of commercial policy we must adopt to stimulate our export trade and make interest payments on overseas investments possible.

Price Fixing of Agricultural Products Leads to Similar Control of Industrial Prices and Economic Isolation

We can now return to a more detailed analysis of the statement that to succeed in keeping farm prices at parity, not only agricultural but also industrial production and prices would have to be controlled. Nothing seems more

[15] H. B. Adams, *Our Economic Revolution.* Cited. p. 157.

certain at present than the fact that reduction of our farm surpluses would lead to one of two alternatives; either there would be a large unemployed group of farm families, particularly in the South, or these families and some of the land would be used to produce raw materials and foodstuffs which are at present imported.[16] If the unemployment situation resulted there would be a tendency for industries to spring up using cheaper labor. An example of this is the development of cotton mills and other industries in the South. This would lead inevitably to pressure by the labor groups, and already established factories, for a minimum wage and a maximum hour law on a federal basis. The established industries would probably all back this movement, and such a combination would undoubtedly win. At the same time costs of living would be increased, and costs of raw materials would rise, while support of the unemployed would keep taxes high. As a result there would either be a considerable drop in returns to capital or an increase in prices. As industry is organized and managed at the present time it seems highly probable that prices would rise unless the government stepped in and attempted to regulate them.

Similarly, if the land and labor taken from the production of our present surplus crops was used to produce our imported foods and raw materials, then again costs would tend to rise and the manufacturers would pass these extra costs on to the consumer by higher prices, unless they were prevented from so doing by government edict. In a few words it amounts to this: The high rate of profit on industrial production has been partly due, over the past decade, to the low prices of food and raw materials produced by the farmer. The high tariff walls have prevented foreign competition and stimulated the formation of combines and trade associations within the country, and the main object of these associations has been to prevent internal competition from destroying the advantage of a protective tariff in keeping prices up. Any change in this

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[16] See Chapter VI for a more complete discussion of this point.

balance which increased costs and reduced profits would be met by an attempt either to reduce other costs or increase prices. The main object would be to retain the rate of profit.

Industry has maintained a fairly rigid level of prices and perfected an almost inflexible price system over a large part of our economic life. To introduce a similar inflexibility in agricultural prices would introduce a new rigidity on a higher level but, unless the industrial price level were also controlled by the government, there is no assurance that the industrial prices would not move to a higher level and again become rigid.[17] In this case the farmers would be no better off except that their taxes and interest payments would tend to lag behind the other increases until they also adjusted themselves to a new level. And, finally, such a stabilization and inflexible price system could only be maintained under a regime of almost complete economic self-sufficiency.

From this rather theoretical discussion of the difficulties involved in achieving price parity for agricultural products, particularly by the production control method, it seems reasonably certain that any attempt to control the

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[17] There are two important factors which have helped farm prices to increase more rapidly than industrial prices: (1) the drought conditions of 1934 and 1936 removed surpluses and caused imports of food and raw materials to rise. (2) the devaluation of the dollar caused the prices of agricultural products to rise at home because their world prices in gold remained fairly stable; industrial goods using large amounts of labor, and not dependent upon world prices, did not rise greatly in price, and their exports increased in 1934 because they became relatively cheap to nations which did not depreciate their currency. If 1910-14 be taken as 100 the wholesale price index of all commodities fell from 139 in 1929 to 95 in 1932; from then on the index rose to 109 in 1934 and 126 in 1937. From September, 1937, the index has declined from 128 to 116 in March, 1938. The index of farm prices for all agricultural products was 146 in 1929 and fell to 65 in 1932; from then on it rose to 90 in 1934 and 121 in 1937. From April, 1937, the index has fallen from 130 to 94 in April, 1938. When expressed as a ratio of prices received to prices paid by farmers, the index was 95 in 1929, 61 in 1932, 73 in 1934, and 93 in 1937. Since April, 1937, this ratio has declined from 97 to 76 in April, 1938. In other words, the spread between prices of manufactured goods and farm products was narrowed but has since shown a steady tendency to widen again during the last 12 months. (Index numbers from *The Agricultural Situation*, Vol. 22, No. 5, May, 1938). Comments and figures showing these trends are also published by the League of Nations and show the trends of wages, costs of living, and prices of raw materals. See *World Economic Survey*, 1934-35, pp. 78 to 90; 1935-36, p. 86; 1936-37, pp. 82-100.

prices of agricultural products through production control would lead to a control of industrial prices also, if the advantage to agriculture were to be maintained; it also would appear to lead, almost inevitably, to a regime of complete economic nationalism. With these facts as a background it is proposed to now turn to an analysis of the legislation passed by the present administration which aimed at establishing price parity and agricultural prosperity.

CHAPTER III

THE NEW DEAL AND ECONOMIC ISOLATION

Contradictions in Legislation Passed

It is impossible to discuss fully all the legislation under the general heading of "The New Deal." There are, however, certain aspects of it which are vitally connected with foreign trade, and it is essential that we have an outline of these policies and actions in order to relate the trend of present legislation to the basic problems of economic nationalism.

One's first impression of the "new deal" is that it is the strangest mixture of contradictory legislation ever devised by the mind of man. What the left hand takes away the right hand restores, and neither hand appears to be worried about the actions of the other. In order to understand these actions and attempt to bring order out of chaos it is essential that a clear distinction be made between emergency measures, designed to relieve the suffering caused by the depression, and permanent measures looking toward the future. Only on this basis can crop reduction be reconciled with irrigation schemes, and foreign trade promotion through reciprocal trade agreements with domestic price boosting policies.

Early Acts of the New Deal

Immediately upon taking office Mr. Roosevelt and his advisers started to stop the deflationary movement which was threatening the whole financial structure of the na-

tion. The Emergency Banking Act, passed on March 9th, allowed sound banks to reopen and prevented a further "run" on bank deposits. Emergency circulating notes were issued and, as the sound banks reopened, confidence in the system was rapidly restored. Following this the Citizens' Civilian Camps were established on March 31st with funds amounting to half a billion dollars. In April a further half billion was appropriated for direct relief of the unemployed, and in June a public works program was passed with an appropriation of $3,300,000,000. These were definitely emergency measures designed to alleviate suffering and also to "prime the pump" so that purchasing power would be increased and private industry started on the way to recovery.

To alleviate the position of debtors the Emergency Farm Mortgage Act and the Home Owner's Loan Corporation were created. Under the former the Federal Land Bank was permitted to issue two billion dollars worth of new farm mortgage bonds with interest payments guaranteed by the Federal government. The receipts from these bonds were to be used to refinance farm mortgages at 4½ per cent, and this was later reduced to 3½ per cent. There was also considerable scaling down of debts by debt adjustment boards. The Home Owner's Loan Corporation was permitted to issue 2.2 billions of dollars worth of bonds to do for the city householders what the Land Bank was to do for the farmers. These measures, by reducing the interest payments, also were supposed to increase purchasing power by leaving more of the national income for consumers goods rather than being paid out as interest charges on capital which might be hoarded rather than re-invested or used to purchase consumers goods.

Devaluation of the Dollar

One of the most important measures affecting international relations and foreign trade was the inflation measure attached to the A.A.A. which was approved by the President on May 12, 1933. This measure allows the

President to use one or more of five methods to inflate the general price level. By preventing prices from declining, and causing them to take an upward turn, it was hoped that industry would be stimulated to activity by the expectation of good profits. It was also hoped that exports might be stimulated by lowering the prices of our products in terms of foreign currencies through a lowered gold content of the dollar. The five measures to be used at the President's discretion were (1) open market operations by the Federal Reserve Board and banks in buying or selling government securities and treasury bills, and regulation of credit expansion by varying the reserve requirements of all member banks; (2) the issuing of up to three billion dollars of United States notes to pay Federal obligations or to buy United States bonds; (3) the fixing, by proclamation, of the gold content of the dollar with the reduction limited to 50 per cent; (4) the establishment of a fixed silver ratio to gold and free coinage of silver; and (5) the acceptance of up to $200,000,000 of silver valued at under fifty cents an ounce, from foreign debtors of the United States, and the issuance of silver certificates up to the amount of silver received.

These measures could be used under the following circumstances: (1) when trade is adversely affected by the depreciation of foreign currencies, (2) when United States parity of exchange is not maintained, (3) when any emergency demands an expansion of credit, and (4) when any international agreement calls for an expansion to establish stabilization of currencies at proper levels. The general object was to push up the price level to about that of 1926 and then to stabilize it at that level.

On April 19, 1933, President Roosevelt placed an embargo on the exportation of gold and started to reduce the gold content of the dollar. By January 31, 1934, the dollar was stabilized at 59.06 cents in terms of gold. Gold was selling on the London market at $34.51 per ounce[1] on February 5th. Actually the dollar has fluctuated moderately

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[1] U.S.D.A. *Yearbook of Agriculture,* 1935, Table 547, p. 746.

between 60 cents and 59 cents gold over a period of two years. This represents a devaluation of 41 per cent. Other countries in June, 1935, showed the following percentage discounts from gold parity: United Kingdom, 40 per cent; Canada, 41 per cent; Cuba, 41 per cent; Denmark, 51 per cent; Australia and New Zealand, 52 per cent; Argentina, 63 per cent; and Japan, 66 per cent.[2]

Effect on International Trade

Theoretically, devaluation should have stimulated exports by making American goods cheaper in terms of foreign currency. Actually, our total foreign trade was 1,413 million dollars between July, 1932, and June, 1933, and only 2,008 million dollars between July, 1933, and June, 1934.[3] While these periods do not exactly coincide with the changed gold value of the dollar (during the last two months of the first year the gold content dropped from 100 to 80, and the full 40 per cent devaluation was not achieved during the first six months of the second year quoted), they at least enable one to make a rough comparison. By taking the gold value of the dollar, during July, 1933, and June, 1934, as having declined only 35 per cent, the value of the goods exported during that period in terms of the 100 per cent dollar of the previous year (neglecting the decline of the last two months) would be only 1,305 million dollars. This would indicate that, actually, exports had declined in volume but that we received more dollars for less goods. This undoubtedly had some effect on raising the home price level.

The depreciation of the dollar also tended to raise prices by raising the dollar value of all goods imported, and acting in the same way that a 41 per cent increase in tariff rates would have acted, except that the devaluation raised the prices of all goods whether they were on the tariff list

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[2] League of Nations *Monthly Bulletin of Statistics*. July, 1935. Of the gold block, France, the Netherlands, Switzerland, and Italy were the only major nations which were left precariously clinging to gold parity at this time.

[3] U.S.D.A. *Yearbook of Agriculture*, 1935. Table 442, p. 63.

or on the free list. To some extent this may also have served to encourage home production. Actually, imports increased from 1,168 million dollars to 1,673 million dollars for the periods 1932-33 and 1933-34. Again taking the approximate value of the dollar as 65 per cent during the latter period, the total imports in terms of the 100 per cent dollar would be 1,087 million dollars. This shows an actual decline in imports and is what one would expect. Table 4, which gives monthly imports and values in terms of gold and dollars, substantiates the more general statement deduced from a rough annual estimate.

For each month exports show a decline in 1933 when compared with those of 1932 in terms of gold values. The decline, however, appears to be considerably less after the dollar had been depreciated. The most that could be claimed for the effectiveness of lowering the gold content as a stimulant to exports would appear to be that it checked the rapidity of the decline of our export trade.

Imports did not decline rapidly, but actually increased during July, August, and September. This phenomenon can probably be accounted for by the fact that, while the gold content was being reduced, larger orders were placed with foreign firms in an attempt to stock up on goods which would rise in price as devaluation continued.

Exports could hardly be expected to rise because of the shortage of American exchange held by foreign nations, and the fact that the United States was only reducing her currency to the level of that already achieved by many other nations. Imports did not decline, as might be expected, because under the Smoot-Hawley tariff almost all really competitive imports were burdened by heavy duties, and those which did enter were essentials and luxuries not greatly affected by competitive prices in America.[4] Also any uncertainty regarding exchange rates has a retarding effect on international trade and tends to restrict exports when a decline in the gold value of the currency of the exporting nation is anticipated.

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[4] Chapter IX gives a detailed classification of these tariff rates which restricted competitive goods.

TABLE 4

Percentage Change in Foreign Trade for Dollar Values and Gold Values. U. S. A. 1932 to 1933, by Months.*

Month	Dollar Value 1932	Dollar Value 1933	Pctg. Change (U.S.$)	Gold Value 1933	Pctg. Change (Gold)
	Exports (Millions of dollars)				
February	156	102	—34	102	—34
March	155	108	—31	108	—31
April	135	105	—22	101	—25
May	132	114	—13	98	—25
June	114	120	+ 5	98	—14
July	107	144	+35	104	— 3
August	109	131	+21	96	—12
September	132	160	+21	109	—17
October	153	194	+27	131	—14
November	139	184	+32	116	—17
	Imports (Millions of dollars)				
February	131	84	—36	84	—36
March	131	95	—28	95	—28
April	127	88	—30	84	—34
May	112	107	— 5	92	—18
June	110	122	+11	100	— 9
July	79	143	+80	103	+29
August	91	155	+70	144	+25
September	98	147	+49	101	+ 3
October	105	151	+44	103	— 2
November	104	128	+23	81	—22

* Maxwell S. Stewart. *International Aspects of Roosevelt's Monetary Policy*. Foreign Policy Reports. Vol. IX, No. 24, p. 278.

All these measures represent attempts to raise the general price level and help debtors so that they might repay their loans in dollars which were equivalent in buying power to those they had borrowed. From the point of view of international trade they represent a further step towards economic isolation because no reduction in tariffs

was made when the dollar was devaluated. From the point of view of establishing a permanent and better balance between production and purchasing power they were useless because, as several economists have pointed out, rising prices might stimulate production, but would tend to reduce purchasing power because real wages would lag and profits would be high and thus stimulate further production while decreasing purchasing power. Also, the huge Federal works program would only create increased purchasing power as long as government money was kept pouring out; as soon as this flow stopped, industry might again slump and there would be a further relapse into depression.

The N. R. A. and Foreign Trade

It was to meet these arguments, and to try to establish industry on a permanent balanced basis, that the National Industrial Recovery Act was passed on June 16th, 1933. The objectives of this act are clearly outlined in the declaration of policy which states,

> "A national emergency productive of widespread unemployment and disorganization of industry, which burdens interstate and foreign commerce, affects the public welfare and undermines the standards of living of the American people, is hereby declared to exist. It is hereby declared to be the policy of Congress to remove obstructions to the free flow of interstate and foreign commerce which tend to diminish the amount thereof; and to provide for the general welfare by promoting the organization of industry for the purpose of cooperative action among trade groups, to induce and maintain united action of labor and management under adequate government sanctions and supervision, to eliminate unfair competitive practices, to promote the fullest possible utilization of the present productive capacities of industries, to avoid undue restriction of production (except as may be temporarily required), to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labor, and otherwise to rehabilitate industry and to conserve national resources." [5]

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[5] Industrial Code Provisions of the National Industrial Recovery Act. Section 1.

In his administration of this act, and as his public utterances show, Mr. Johnson aimed chiefly at increasing employment and building up consumers' purchasing power so that production and consumption might be balanced. That the object of the act might be defeated by having the price level depressed by an influx of foreign goods was recognized and, as stated in section (e), the President on his own initiative, or upon receiving a complaint from any workers' organization or business mens' association, may ask the tariff commission to investigate and may, upon the receipt of their report, raise the tariff rates on the goods in question and also apply a quota if necessary. Thus it appears that, in spite of the fine phrasing of the preamble regarding the increase of international trade, the whole tenor of the act was toward a distinct economic isolation, with competitive products from foreign nations likely to be heavily taxed or barred if their importation in any way increased. How this could possibly be reconciled with the hope that the act would help international trade, or that any trade increase might take place from the devaluation of the dollar, it is impossible to say. With the international debt situation as it was, no foreign nation was willing to increase its obligations to this country while its goods were excluded, and it could not pay in gold. Obviously, the act was directed at "setting our own house in order," and its implications toward foreign trade largely ignored. If it had remained in force, these implications would have become more and more apparent. As it turned out little harm and possibly some good resulted, but this is hardly the place to discuss the internal dissensions nor the final collapse of the act through the adverse decision of the supreme court.

The A. A. A. and Foreign Trade

Next to the inflation provisions, the Agricultural Adjustment Act contained measures which indirectly may have far-reaching effects upon our foreign trade. The greater portions of the A. A. A. itself were declared un-

constitutional but, to some extent, its spirit and purpose have been carried over into 1936 in the Soil Conservation and Domestic Allotment Act of the federal government. The A. A. A. was passed on May 12, 1933, and the fundamental object of the act was to re-establish parity prices between the goods farmers sold and the goods they purchased. The definition of parity prices and the base period used has been outlined in the previous chapter and need not be repeated here. There was, however, one provision regarding the raising of prices to the consumer which is important. Paragraph (3) of the declaration of policy (section 2 of the Act) states that it is the policy of Congress,

> "To protect the consumers' interest by readjusting farm production at such level as will not increase the percentage of the consumers' retail expenditures for agricultural commodities, or products derived therefrom, which is returned to the farmer, above the percentage which was returned to the farmer in the pre-war period, August, 1909-July, 1914."

This provision was inserted to prevent the act from establishing a price level which was unfairly advantageous to the farmer at the expense of labor and the general public. The objects of the act were to be attained by maintaining a balance between the production and consumption of agricultural commodities; this was to be brought about by the federal government renting land from the farmer or paying benefits for destruction or non-production of surplus commodities; processors and marketing agencies were to be licensed, and the payments to the farmers were to be met by a processing tax which would be equal to the difference in price between the "fair exchange value of the commodity" (price in the base period) and the current farm price (variations above or below this rate were allowed). Reductions in the acreage of cotton, wheat, corn, and reduction in the number of pigs took place. The dairy industry was never successfully placed on a production control scheme, and a scheme for controlling potato production fell through when the processing tax was declared unconstitutional and the act discontinued. Replac-

ing the A. A. A., the Soil Conservation Act was framed to allow the reduction of acreage of "soil depleting crops" by replacing them by "soil conserving" crops or "soil building" crops. The farmers were encouraged to take part in this indirect form of crop curtailment by benefit or compensation payments for the loss of the soil depleting crops not grown.

It was hoped that by these methods the farmers' income might be raised, and his purchasing power so increased that his buying would stimulate general industrial recovery. Whether this assumption will bear the light of careful analysis is doubtful because any increase in purchasing power of the farmers appears to have been more than offset by a decline in the purchasing power of the city workers for industrial products, because of the larger amount that had to be expended on food. Without increasing wage rates it is doubtful if this hope was fulfilled to the extent claimed by the administrator of the act, Mr. Chester C. Davis, in his paper read before the 1935 Annual Meeting of the American Farm Economic Association when he stated,

> "That portion of the national income diverted to agriculture might, in the absence of such diversion, have found its way largely into investment, or into savings. But diverted to farmers, this income, as the evidence shows, has resulted in a heavy volume of purchases of manufactured goods. Mr. Bean finds that approximately 40 per cent of the 1923–24 increase in factory employment can be attributed to the improvement in rural trade." [6]

The difficulty, as Mr. Davis himself admits, lies in the impossibility of determining how much of the price increases was due to the A. A. A. and how much was due to the drought, the devaluation of the dollar, or to an increase in the price level resulting from general economic recov-

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[6] Chester C. Davis, *The Agricultural Adjustment Act and National Recovery*. Also see the "Discussion" by J. D. Black, *Journal of Farm Economics*, Vol. XVIII, No. 2. May, 1936. pp. 229-243. For the opposite point of view see the article by Joseph S. Davis "AAA as a Force in Recovery" and discussions. Journal of Farm Economics Vol. XVII, No. 1. Feb., 1935. pp. 1-19.

ery. The A. A. A. had some effect certainly, but the question, "how much?" remains unanswered.

Actually, the surpluses of agricultural products have been reduced and prices have risen greatly from a low point of 65 in 1932 to 70 in 1933, 90 in 1934, 108 in 1935, 114 for 1936, and reached 121 for 1937. However, from April, 1937, to April, 1938, prices have declined steadily to 94 in the latter month in spite of continued reductions in acreages under the Soil Conservation and Domestic Allotment Act.[7]

If statements by the opposition are accepted, the drought is to be wholly praised for increasing farm incomes and the "New Deal" wholly blamed for increasing retail prices of food to the housewife. The question of who pays the tax is also an interesting one and seems to depend finally upon the elasticity of the demand for each specific product.[8]

Intriguing as these questions are, however, we must leave them to examine further the relation of the A. A. A. to foreign trade. It is often stated that one immediate result of success in raising home prices by curtailing production would be a decline in exports unless world prices also rose by an equal amount. In America this tendency was partly compensated for by the reduction of the gold content of the dollar. This meant that the price of any exported farm product could be increased by 41 per cent in terms of United States currency and still be quoted at the same price as before in the currency of the country to which it was exported; providing, of course, that the other nation did not change the value of its currency during the same period, and the exchange rate between the two countries varied proportionately to the devaluation of the dollar. Perhaps the best way to phrase this usual objection to the A. A. A. would be to say that when the action of this

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[7] U.S.D.A., *The Agricultural Situation.* Vol. 22, No. 5. May, 1938. p. 24.

[8] For an excellent discussion of this problem see the articles by N. Slade Kendrick and Geoffrey Shepherd and discussions in the *Journal of Farm Economics.* Vol. XVII, No. 2. May, 1935. pp. 307-334.

act so reduces available supplies that the domestic price is enhanced above the world price in terms of gold, then exports will be reduced and tend to be replaced by supplies from other nations where the gold price is lower. Even this statement hardly reveals what would actually take place because a product largely dependent upon exports has the home price determined by world quotations, unless it is on some kind of export debenture or home subsidy plan, and the home price in terms of gold is only raised by the amount that the world price in gold is raised. If the world price is raised, then production in other countries, which can produce more cheaply, is increased, and the world price is again reduced so that the country restricting production finds it has a lower production at the same low price in gold. To follow this to its logical conclusion further reductions would have to take place until only the home consumption needs were met, and then the home price could be maintained above the world price by a tariff or some other protective measure.

This argument has been used particularly with regard to the exports of cotton from the South, but, before considering this crop in more detail, it seems advisable to hear the answer of the proponents of the A. A. A. to this argument. The Assistant Secretary of Agriculture presents it succinctly when he says,

> "Practically all the opponents of the Triple A contend that the Triple A jeopardizes the farmers' foreign market. They assume that increased sales, at continually declining prices, do not necessarily mean increased losses. Responsible opinion would not justify this view for any business. It would not be seriously advanced if the opponents of crop control for agriculture thought through their attitude, and realized its implications. They say that agriculture will lose its foreign market, if it refrains from supplying that market indefinitely at a loss. Agriculture cannot be said to possess a foreign market, if the business it does there is a losing business. Under such conditions it has only a foreign dumping ground. . . .
>
> "It was the world crisis that brought the issue to a focus. Prior to 1929 it was possible to argue not implausibly that foreign countries would be glad to accept our goods at bar-

gain prices; that they would not regard the dumping involved as seriously objectionable; that any surpluses produced here could be sold abroad at some price; and that losses on export sales would not wipe out gains in a protected, domestic market. After 1929 that view could not be held. Surpluses piled up, and did not move out though prices sank very low. It became evident that a revolutionary change had taken place in the economic relationship between the new and the Old World, as a result of which American agriculture had to retreat from positions it had occupied for decades. One country after another adopted anti-dumping laws and trade restrictions of various kinds, and gave clear notice of an intention to oppose the subsidization of American farm exports. There was only one thing left to do—regulate the production of the exports.

"Thus the assumptions of the Triple A's critics merely negate the Triple A assumptions. These critics contend that farmers should not limit their production because that means scarcity; that they should produce for export even at low prices far below costs; that they should ignore the world-wide growth of economic nationalism; and that they should let the domestic consumer carry the whole burden of providing foreigners, at less than cost, with an increasing proportion of the agricultural output." [9]

The A. A. A. and Cotton Prices

With this reply to the critics in mind, an examination of the effect of the A. A. A. upon cotton prices and exports is presented. Mr. John C. de Wilde[10] has prepared an excellent statistical analysis of this problem and shows that the farmers' income from cotton declined from $1,535,455,000 in 1928 to $483,912,000 in 1932, and that during this same period the carry-over of American cotton rose from 5,114,000 to 12,960,000 bales, an amount nearly equivalent to the total annual world consumption. Prices dropped from 18 cents a pound as an average in 1928-29 to a record low of 4.6 cents in June, 1932. This led the A. A. A. to attack the cotton surplus immediately. In 1932 the farmers

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[9] M. L. Wilson, "Validity of the Fundamental Assumptions Underlying Agricultural Adjustment." *Journal of Farm Economics,* Vol. XVIII, No. 1. Feb., 1936, pp. 19 & 20.

[10] John C. de Wilde, "The AAA and Exports of the South." *Foreign Policy Reports,* Vol. XI, No. 4. April 24, 1935. N.Y. *Passim.*

reduced their acreage by 17.8 per cent from the 1929 area, but an increase in prices led to an expansion of acreage by 12 per cent in 1933 spring plantings. The A. A. A. was successful in removing 10.4 million acres of this crop from production but good weather conditions gave an excellent crop of 13 million bales which was equal to that of the year before. This did not greatly reduce the carry-over and, in 1934, the goal for restricted plantings was 25 million acres (40 per cent below the 1928-32 average). To enforce the reduction the Bankhead Cotton Control Bill was passed and signed by the President on April 21, 1934. This act fixed a quota of about 10.5 million bales and provided a heavy tax on any excess production. Owing to the drought, production fell to 9.7 million bales. The returns to the farmer are shown in table 5.

TABLE 5

COTTON PRODUCTION, PRICES, BENEFIT PAYMENTS, AND TOTAL RETURNS TO THE FARMER. U.S.A. 1932-1934

Year	Production * (Millions of Bales)	Price * (Cents per pound)	Farm † Value	Benefit † Pay-ments	Total Returns
			(Millions of Dollars)		
1932	13.0	6.52	464		464
1933	13.0	10.17	688	174	862
1934	9.6	12.36	706	116	822

* U.S.D.A., *Agricultural Statistics*. 1936. p. 76, table 98.

† *Ibid.*, p. 336, table 442; gross income from cotton and cottonseed, and rental and benefit payments.

During this same period the exports of American cotton have declined considerably from 8.8 million bales in 1932 to 7.8 in 1933 and 4.9 in 1934. At the same time world consumption of foreign cotton has increased from 10.3 million bales in 1932-33 to 11.6 million bales in 1933-34, while the world consumption of American cotton has declined. Cer-

tainly part of the decline in the consumption of American cotton can be explained by lack of American exchange with which to purchase it (particularly is this true in the case of Germany), and Mr. de Wilde feels that the high price of American cotton has caused foreign mill-owners to purchase more cotton from countries other than the United States.

A further important factor has been the steady increase in foreign cotton production from 1921 on. The figures are presented in table 6.

TABLE 6

ESTIMATED ACREAGE OF COTTON, U.S.A. AND FOREIGN NATIONS 1921-35*

YEAR	COTTON PRODUCTION (MILLIONS OF ACRES)	
	U. S. A.	Foreign
1921-2	28.7	28.3
1924-5	39.5	40.4
1927-8	38.3	37.9
1930-1	42.5	41.7
1931-2	38.7	42.3
1932-3	35.9	40.8
1933-4	30.0	44.4
1934-5	27.5	45.9

* Quoted from J. C. de Wilde, "The AAA and Exports of the South." Cited, p. 42. 1932-35 figures; *Yearbook of Agriculture,* 1935, p. 427. (Based on estimates by the International Institute of Agriculture, and the Bureau of Agricultural Economics.)

The large increase in foreign production in 1933-34 could not, as Mr. de Wilde points out, have been the result of the A. A. A. as it was not then in full swing, but was probably due to the expectation of higher prices. Mr. de Wilde summarizes his opinion this way,

> "If the American program had not kept the world prices from falling, foreign production might have returned to normal instead of being maintained at the high 1933 level." [11]

[11] J. C. de Wilde, "AAA and Exports of the South." Cited, p. 42.

He then shows that there are other indications of a boom of cotton production in foreign countries, such as a five-fold increase in the exports of cotton gins during 1934, and the activities of the Brazilian government in promoting cotton culture. In Southern Brazil the climate and soil are said to be favorable to a large expansion in cotton acreage, and the low price of coffee in relation to cotton is also a factor tending to increase the acreage of the latter. On the whole there is ample room for foreign expansion of production if prices remain high. While not advocating the abandonment of the A. A. A. and the benefits it has brought to the farmer, Mr. de Wilde points out clearly the danger of increasing competition from abroad and advocates a more moderate program and reduced costs. He feels that the federal cotton loan policy should be modified and loans made at a lower price.

In this connection the very grave danger that crop control measures and guaranteed loans may be subject to the same "log-rolling" process as the industrial tariffs appears all too clearly; as Prof. O. B. Jesness has said,

> "An illustration of what this implies is at hand. The administration apparently was satisfied in the summer of 1935 that a 12-cent cotton loan was undesirable. This conclusion was arrived at after consideration of the situation in the cotton markets, including our diminishing exports. What was the reaction in political circles to this? How much consideration was given these points? Apparently none at all. Twelve-cent cotton had much more appeal to 'economic democracy' than the 9-cent proposal, so 12-cent cotton held sway, leading to a filibuster and finally a compromise. Is not this a fundamental weakness of these programs? Will they not be subject to stresses and strains similar to those evident in tariff hearings where national welfare is lost sight of in striving for immediate and individual gains?" [12]

Truly history seems to repeat itself! However, a weakness should not be used as a counsel of despair but rather as a basis for modification and improvement. Just as an

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[12] O. B. Jesness, "Validity of the Fundamental Assumptions Underlying Agricultural Adjustment." *Journal of Farm Economics*. Vol. XVIII. No. 1. Feb., 1936. p. 42.

attempt (although not successful) has been made to take the tariff schedules out of politics, so will an effort have to be made to remove the administration of the various farm programs from the realm of political pressure.

Before leaving this analysis of the effect of the A. A. A. on the price and foreign production of cotton, there is one important fact that must not be overlooked. The American reduction in acreage and yield by the A. A. A. and the drought did not lead to any great change in world prices. In discussing the effect of monetary policy on prices Professors Warren and Pearson present the following table:

TABLE 7

PRICES OF MIDDLING COTTON 9 MONTHS, SEPTEMBER–MAY *

	Sept., 1932 May, 1933	Sept., 1933 May, 1934	Percentage Change
Prices in gold			
Havre, France			
francs per 50 Kg.	224.56	226.00	+ 0.60
Amsterdam, Holland			
florins per 100 Kg.	42.39	42.26	— 0.03
Liverpool, England			
pence per lb.	3.78	3.76	— 0.05
New York	6.64	6.85	+ 3.20
Prices in currency			
Liverpool, England	5.45	5.87	+ 8.00
New York	6.80	11.00	+62.00

* C. F. Warren and F. H. Pearson, "Monetary Policy and Prices." *Journal of Farm Economics.* Vol. XVII, No. 2. May, 1935. p. 223.

From this table it seems clear that the major increase in the farmers' income came from the devaluaton of the dollar rather than from the effect of the crop curtailment in 1933. To some extent the curtailment may have held prices higher than they would have been if none had taken place, and the authors of this article estimate that the reduction of 15 per cent in the supply of American cotton, when offset by the heavy tax on the portion consumed in the United States, probably only raised the price by 1 or

2 cents. Reversing this argument it would appear that the world price would not have declined more than 10 per cent if no reduction had taken place. Also we must recognize the fact that the American prices of cotton were largely fixed by the loan policy of the administration and, as shown in the previous quotation from Professor Jessness, this price may have been fixed too high.[13]

In the light of these facts no definite conclusions can safely be drawn regarding any serious danger to American cotton supremacy that has resulted from the action of the A. A. A. Other factors, such as the prices of other crops competing for both land and labor, are of great significance, and an increase in the price of coffee, for instance, might very easily reverse the present trend of increased cotton production in foreign countries. The danger is not thereby eliminated but only shown to depend upon more than one factor. In summarizing the total effects of the A. A. A. it appears justifiable to state that it did contribute somewhat to general recovery by increasing farm purchasing power and slightly raising prices through removing unduly large surpluses, but the effect of the drought and devaluation of the dollar would appear to have been considerably more important when taken together; in its effects upon exports from the South there is a grave danger that it may stimulate greater production in competing countries if any attempt is made to increase the price above world prices and that, if the act becomes a political pork barrel, any efforts to reduce prices by increasing production would meet with the same vociferous protests from the farmers that any tariff reduction pro-

[13] This action of fixing the price by a loan policy obscured the effects of devaluation of the dollar. If no reduction in production had taken place then, according to the above reasoning, cotton prices in gold might have been reduced from 6.80 cents (Sept., 1932, to May, 1933) to 6.12 cents (Sept., 1933, to May, 1934); assuming the current dollar to average 60 cents gold, then the Sept., 1933, to May, 1934, price would have been 10.2 cents a pound. Actually, gold export prices for cotton declined only 1 per cent from 1932 to 1933 and increased 0.2 per cent from 1933 to 1934, and 2 per cent from 1934 to 1935. It seems highly probable, therefore, that the loan policy simply obscured the effect of the devaluation of the dollar. (Figures for the percentage change in the gold export prices for cotton taken from the League of Nations *Review of World Trade,* 1935. p. 13.)

gram meets from those directly protected. The act does, therefore, definitely tend to economic nationalism, whenever its operation is successful in raising the prices of export crops above world prices, and whenever its operation results in increasing prices of purely domestic products to such levels that higher tariffs have to be used to keep out competing foreign products in order to maintain those prices. Finally, this tendency to economic nationalism is made much more significant when the danger of political pressure upon the administrators of the act is considered.

CHAPTER IV

THE RECIPROCAL TRADE AGREEMENTS AND THE ALTERNATIVES OFFERED IN THE REPUBLICAN 1936 PLATFORM

Trade Agreements a Reversal of Earlier Policies

The most important measure of the present administration affecting international trade is the Reciprocal Trade Agreements Act which was signed by President Roosevelt on June 12, 1934. This act marks a complete change of policy from the previously considered legislation which had all tended towards economic isolation. Even the devaluation of the dollar, which theoretically might have tended temporarily to increase exports by reducing the prices of American products in terms of gold, was, as we have seen, largely nationalistic in spirit and results. It is now generally accepted that the President's refusal to consider stabilization of the dollar was the basic cause of the failure of the World Monetary and Economic Conference which met on June 12 in London. The President made it quite clear that his primary object was to raise home prices, and establish a dollar with a stabilized purchasing power at home. Whether this policy was necessary or sound is beyond the scope of the present study, but it is certainly true that the President turned his back upon international cooperation at that time and devoted all his energy to raising home prices and attempting to "prime the pump" of American industry. The N. R. A., the A. A. A., and most other measures directed toward raising domestic prices, also contain implications which would seem to make a growing economic isolation inevitable, if

continued, to achieve their aim. The change of emphasis and adoption of a more liberal attitude to foreign commerce marks an important development in the "New Deal" philosophy. Even more than that, it marks a change from the traditional high tariff policy of the United States, which was rapidly approaching a policy of isolation, to a policy of moderate tariffs and planned international trade.

The causes of this change in attitude are not difficult to discern. By 1934 the emergency legislation had been completed. Farm prices had risen almost 50 per cent, and general wholesale prices of all commodities had risen about 15 per cent. National income had been increased. It was time to take stock of the implications behind the "New Deal" program as then operating. How could farm product prices be kept at parity with the prices of goods purchased by the farmer which were also rising rapidly? (The index of prices of these goods increased about 30 per cent while farm prices increased 50 per cent). Obviously, the farmer would be little better off if prices of manufactured goods, which were not being controlled, rose so high that the increase was equal to that enjoyed by products of the farm. This meant either control of industrial prices or further doses of inflation or crop control to keep agricultural prices ahead. The control of industrial prices would involve an increasing rigidity in the price structure and might not be tolerated by the masses of the people. The second method is simply an attempt to lift ourselves by our boot-straps. Economically, very few sound arguments could be put forward for either procedure, and both would involve complete isolation from foreign influences upon the domestic price level.

A further factor was the realization that a reduction of our acreage, to the amount required for home market needs only, would involve a production control far more rigid than that of the past. This would have worked far greater hardships on the cropper tenants of the South than did the A. A. A. program. It also meant a subsidizing of the inefficient farms and development of "unemployment" in agriculture. And, finally, even if all these dangers were

risked, a further increase in prices of farm products might easily have led to decreased consumption and strong opposition from labor because of the higher costs of living. The only other alternative was to export, and this meant increasing imports to provide the American exchange to pay for exports. Once the emergency was somewhat eased, any administration would have faced the necessity of choosing between economic self-containment or an expanded foreign trade through the reduction of tariffs. The administration made the choice one would expect from the Democratic party; they chose the middle path of controlled expansion of foreign trade.[1]

Presidential Powers and Policies Embodied in the Reciprocal Trade Agreements Act

The act authorizes the President to enter into trade agreements with foreign countries which will grant reciprocal reductions of existing barriers to trade. To achieve this end the act gives him the power to reduce to 50 per cent of the pre-existing rate the duty on any domestic product included in the agreement. A Senate amendment was attached providing for the hearing of petitions and opinions by any group interested or affected by the reduction in rates. One of the most important features of the act is the fact that it allows reductions to be arranged and put into effect by executive action; there are no public hearings and no political committees. This partly eliminates the scandalous log-rolling and vote-trading activities of the past. When it is recalled that the failure to reduce tariffs in the past, and the inevitable increases which almost always took place in committees and debates on the floor of Congress, the full importance of this new departure is realized. It represents an attempt to take the tariffs out of politics and leaves the adjustment of rates to a body of impartial experts who are better equipped with the information necessary to evaluate the expediency of any

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[1] For a clear and simple statement of this choice see Henry A. Wallace's *America Must Choose*. World Affairs Pamphlets No. 3. World Peace Foundation. Boston.

particular rate when the good of the nation as a whole is considered.

A second fundamental policy embodied in the act is the application of the reciprocal unconditional most-favored-nation principle to all agreements made. This means that, when the rate on any particular import is lowered by an agreement with another nation, this reduction is applied to all nations exporting similar goods, whether they have an agreement or not, providing that they in turn apply non-discriminatory treatment to our trade with them. Both these major policies have been attacked by critics of the act. These criticisms are of fundamental importance because many of them represent a point of view which, while holding that an extension of foreign trade is desirable, at the same time supports policies which seem almost inevitably to lead to a contraction of foreign commerce and a gradual drift toward complete isolation. If economic nationalism is desirable, then it should be accepted as a national policy and our foreign relations should be openly and consciously directed to achieving that end. In the past, tariff policies have been decided very largely by powerful vested interests, or emergency needs such as money for the treasury, or equalization duties to compensate for internal revenue taxes placed on goods. Pressure groups have sought their own interests, and there has been all too little statesmanship capable of considering the well-being of the nation as a whole. Some of the critics of the act do uphold a policy of building an "America self-contained" and present a straightforward program, both national and international, directed to achieving that end. This is the sound approach. It presents issues and concepts which are tangible and can be discussed. It presents a plan for the future American nation. And, like the planned expansion of trade undertaken by the administration, this represents a distinct break from the traditional pragmatic method of the past when an eastern senator voted for higher wool tariffs because a western senator voted for a higher cotton goods tariff, and neither of them considered whether this policy might lead to complete economic iso-

lation, nor whether such a result would be desirable for the nation as a whole. It is because this visionless and provincial pragmatism still appears to dominate the minds of many critics of planned trade expansion that a rather close examination of these criticisms and their implications is attempted. If we must drift, let us at least try to see the direction in which we will move under a given set of circumstances.

Mr. Peek's Attack on the Policies, and Alternatives Offered

One of the severest critics of the reciprocal trade agreements is Mr. George N. Peek who was Special Adviser to the President on Foreign Trade. He supports the concept of selective bilateral trade agreements whereby the United States agrees to barter certain of its surplus commodities in exchange for the goods it cannot produce at home. He strongly opposes the whole concept of unconditional most-favored-nation treatment which has been the established policy of the United States in most of its past treaties. In 1934 he negotiated a tentative barter agreement with a group of German importers whereby they agreed to buy 800,000 bales of cotton on the American market in the course of one year. Shippers from whom they bought the cotton were to receive 25 per cent of the purchase price in dollars and the remainder in marks. The second Export-Import Bank was to sell these marks to Americans who wished to import German goods and who agreed to use them only for that purpose. Since these marks were likely to be sold at a discount, the German cotton buyers agreed to pay a price for the cotton 22.5 per cent above the market price, and this premium was to be used to offset any loss from the sale of the marks by the bank. In practice, this type of agreement amounts to a barter between two countries, and eliminates the very great advantages of triangular trade, whereby nation A sells goods to country B which in turn may sell goods to country C and finally C sells goods to country A; the

accounts balance, if the value of the goods is the same in every case.

In his address before the National Foreign Trade Convention, Nov. 2, 1934, Mr. Peek upheld this bilateral approach as the realistic policy which should be adopted by the United States in its dealings with foreign nations. This was done in spite of the fact that opposition by the State Department and the inter-departmental Executive Committee on Commercial Policy had caused this German barter agreement to be dropped. This speech was the climax of a widening split between Mr. Peek and Secretary Hull, and Mr. Peek resigned his position. The various points made by Mr. Peek in this speech may be outlined as follows. The old conceptions of foreign trade had been destroyed by high tariffs, quotas, and exchange controls, and America can best preserve her share of world trade by having a central authority with wide powers to regulate foreign commerce. This central control office would keep records of the economic relations of the United States with every foreign nation, and encourage the export of agricultural products and the importation of non-competing articles and raw materials needed by America. Where necessary, exchange problems would be settled by governmental action. This would introduce sound "bookkeeping" into international affairs and, for the first time in history, put them on a "common-sense" basis. Where agreements were made, Mr. Peek advocated the conditional most-favored-nation practice whereby other nations would receive equal treatment only if they gave a *quid pro quo* to the United States.

This policy, as outlined by Mr. Peek, is in direct opposition to that of the present administration which is far more liberal and may be much more effective in stimulating other nations to adopt similar policies. The arguments against Mr. Peek's proposals are that any such accounting system would involve a vast amount of bookkeeping and a stringent control over the flow of capital and securities, as well as goods, from one country to another. Furthermore, such invisible items as tourist expenditures, remit-

tances sent home by emigrants, interest on stocks and bonds, moving picture royalties, and shipping charges, are very difficult to detect and measure. Any such policy would mean that the Import and Export Bank would have to have all such payments pass through its hands and, when they did not balance, some special procedure would have to be developed. This, it would seem, would tend to lessen international commerce and add greater restrictions opposing its free development. In the case of bilateral agreements many cases would be found where the United States desired to export, but did not need the particular goods offered by that country in exchange; where this occurred, no trade would take place while under the present triangular system it does take place. The bilateral argument favors contraction rather than expansion of foreign commerce.

The use of the conditional most-favored-nation policy may be wisely advocated in the case of certain special areas or relationships as, for instance, in the Danubian countries and in the treatment of Cuba by the United States. If the policy goes beyond this, however, there is a grave danger that, where the United States made a reduction in tariffs to only one country, and did not extend it to all, other nations would possibly lose some of their trade with this nation and be encouraged, or even obliged, to take retaliatory measures. It would inevitably lead to jealousy and suspicion regarding the equality of concessions granted. It might also lead to the erection of bargaining tariffs, and would introduce the danger of discrimination, or imagined discrimination. While tariff reductions are only achieved by bargaining today, with a few exceptions, the wiser policy is the one which will achieve this end with the least friction and the least danger of introducing discrimination which might lead to greater difficulties in the future. If the objective is to expand our foreign commerce, then the adoption of the present policy seems sound. Taken all together, Mr. Peek's recommendations would probably introduce such rigidities and limitations that foreign commerce would be greatly reduced rather than expanded.

Criticisms of the Act by the Republican Party and the Alternatives Offered in the 1936 Campaign

In addition to the criticisms of Mr. Peek, there has been a very strong attack upon the reciprocal trade agreements by the opposition party. Since this party has always favored high tariffs and the protection of industry, the home market, and the American laborer, their present stand is one which we would expect it to take.

In his address at Minneapolis Governor Landon discussed the reciprocal trade agreements and outlined the stand the Republican party took on the question of foreign commerce. Governor Landon claims that the reciprocal trade agreements have "sold the farmer down the river" because they have taken away his markets "both at home and abroad" and prevented him from receiving as high a price as he otherwise would have received. Before proving this statement, he declares emphatically that he is in favor of reciprocal trade agreements and that,

> "Under certain conditions it is to the advantage of two countries to lift various commodities out of their general tariff program for special treatment. Both countries make concessions; both countries benefit. This is sound doctrine. . . . .
>
> "I am opposed to a policy of isolation. I want to see a prosperous world as well as a prosperous America. A healthy international trade is essential to world prosperity. And even more than this, world prosperity is good insurance against war. . . . .
>
> "At a time like the present, when economic nationalism is rampant, we cannot afford to scrap our economic defenses. We can be a good neighbor without giving away the latchkey to our door.
>
> "The great enemy of world trade today is not the fair protection of efficient American producers and laborers. It is the war-inspired doctrine of isolation and its resulting demands for self-sufficiency. From this we get embargoes, exchange restrictions and trade quotas. These are the real hindrances to a healthy exchange of goods between nations. We must not join in this kind of madness. If we are to maintain our standard of living the channels of world trade must remain open." [2]

[2] Gov. A. Landon. Minneapolis Speech. *Milwaukee Journal,* Sept. 26, 1936.

The Republican candidate then states that the dairy industry has been harmed by the reciprocal trade agreements, and uses the influx of Canadian cheese as an example. He links this to the decline of cheese prices from 17 cents to 12½ cents during the first four months of the Canadian agreement. Also, from Brazil, babassu nuts and oils are allowed to come into this country "in direct competition with American dairy products." Contracted to this state of affairs is the Republican pledge,

> "to protect the American farmer against the imports of all livestock, dairy, and agricultural products . . . . which will depress American prices." [3]

He then goes on to show that the livestock men were also hurt by the reduction of tariffs on animal imports from Canada and that the influx of steers forced the price down from $9.75 to $7.25 a hundredweight. In passing, he touches upon the damage done to Florida vegetable growers, cigar wrapper producers, the bulb growers, and producers of domestic starch. He finally states that the results of eight of these treaties show that imports of farm products have increased 84 per cent and exports of farm products only 26 per cent.

The causes of this "scandalous situation" are several. First of all, the nation has made treaties with the wrong nations. Governor Landon's use of reciprocal agreements would be,

> "that such treaties be used to handle those situations which cannot be met satisfactorily in the general tariff program. This means that reciprocity is valuable only when non-competing commodities are exchanged between the two nations concerned." [4]

In contrast to this the present administration has made agreements with nations producing competing products and,

> "Had the administration been interested in using the prin-

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[3] Gov. A. Landon. Minneapolis Speech. *Milwaukee Journal,* Sept. 26, 1936.

[4] *Ibid.*

ciple of reciprocity in its proper manner, it would have made agreements only with our customers. It wouldn't have made an agreement on agricultural products with our very good friend, Canada, which in this field is a competitor, not a customer." [5]

The Republicans further pledged themselves,

> "to furnish government assistance in disposing of surpluses in foreign trade by bargaining for foreign markets selectively by countries, both as to exports and imports. . . . ."
>
> "To do this intelligently we must know at all times the exact status of our trade with every nation—in other words, how we stand on the books so far as both consumers and competitors are concerned." [6]

A second reason used by Governor Landon to denounce the reciprocal trade agreements is the method by which the agreements are made. "It is a regular star chamber proceeding" and producers whose products are involved are not given a fair hearing because they do not know what articles are being involved in the proceedings. The large manufacturers are able to find out from their foreign correspondents, but the small manufacturer cannot do this, and he is unable to present his case. Also the manufacturer who presents briefs "knows. . . that there is little chance they will be read."

A third weakness is the use of the unconditional most-favored-nation principle which is no longer being used by most nations and,

> "In consequence, when we apply it, we are making a concession to foreign nations without getting anything in return. This is not reciprocity. It is charity paid for by American producers." [7]

The fourth evil in the act is the fact that the President has too much power. If agreements are treaties, then a two-thirds majority in the Senate is demanded by the

[5] Gov. A. Landon. Minneapolis Speech. *Milwaukee Journal,* Sept. 26, 1936.

[6] *Ibid.*

[7] Gov. A. Landon. Minneapolis Speech. *Milwaukee Journal,* Sept. 12, 1936.

Constitution. If they are tariff measures, then a majority vote from both houses should be given before they become law.

Finally Governor Landon again states,

> "We require many things which we either do not produce or can produce only at great cost. In turn, we produce many products in greater abundance than we can use. The interchange of these two classes of goods is essential to our well-being.
>
> "We must not reduce farm production in this country to the needs of the domestic market. This is the doctrine of despair. It would mean the abandonment of at least one out of every 10 acres of our developed farm land. . . . . It would mean a lower standard of living and a greatly increased relief load in the rural districts." [8]

In his speech at Des Moines, Governor Landon made clearer some main points in his agricultural policy. He points out that, where any product has an exportable surplus, the price of all the crop is decided by the world price of the surplus and that, in this case, the tariff is not effective. Today this is a serious handicap because foreign nations are dominated by imperialistic aims and fears to such an extent that their markets are closed to our products. Also foreign competitors are subsidized by government grants. And, "so long as this is the case, the cards are stacked against our farmers." However,

> "The Republican party proposes to offset these disadvantages by the payment of cash benefits. . . . . upon the domestically consumed portions of such crops, in order to make the tariff effective. . . . . Such protection is common fairness to the farmer. It will act as insurance until long-time programs of surplus removal and land use can be brought into effect. . . . . We cannot let temporary surpluses destroy the standard of living of the farm family." [9]

Apart from paying cash benefits, Governor Landon would advance money on warehouse receipts for grain

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[8] Gov. A. Landon. Minneapolis Speech. *Milwaukee Journal,* Sept. 12, 1936.

[9] Gov. A. Landon, Speech on Farm Policies, Des Moines, Iowa. *Milwaukee Journal,* Sept. 24, 1936.

being stored and would develop some scheme of crop insurance.

Before drawing all these statements together into a unified summary, there is one further statement, made at Albuquerque, New Mexico, which helps to clarify the attitude of the Republican party. After outlining most of the arguments listed above, Governor Landon states,

> "We shall use our reciprocal trade negotiations to protect the efficient American manufacturer and working man from the unfair competition of foreign nations which indulge in unfair currency depreciation, subsidies and other unfair international practices to capture our domestic markets. But I am sure that American industry is fully alive to its obligations to the farmers and consumers of this country. It realizes that such protection should not be extended to the inefficient producer except in the case of those industries which are essential to us in time of war, of new industries which have not yet reached their full development." [10]

Replies to These Attacks

It is impossible to cover all the replies which have been made to these criticisms by President Roosevelt, Secretary Wallace, and Secretary Hull. Summarized, the answers state that prices of farm products have not been lowered by imports; that the way to ease international friction and economic isolation is to reduce barriers and not to make matters worse by increasing them; that the increase in world trade will increase general prosperity and increase the farmers' home market particularly for dairy products; that the use of the unconditional most-favored-nation clause is already having a beneficial effect on world relations; that the babassu oil, explicitly mentioned by Governor Landon as a competitor of dairy products, is used largely for soap which the farmers buy or replaces other oils previously imported; and that, while Governor Landon in the West complained to farmers that the reciprocal trade agreements had lowered prices and that he would

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[10] Gov. A. Landon, Speech delivered at Albuquerque, New Mexico. *Capital Times,* Madison, Wis., Oct. 20, 1936.

raise them by more protection, he was also telling the workers of the East that the Roosevelt farm policies had sent food prices sky high and his election would end all that. In much of this there is a good deal of political opportunism revealed, but, on his basic assumption that farm prices had been lowered, Governor Landon undoubtedly appears to have been in error.[11]

Summary of the Republican Platform, and Discussion

The Republican party's farm platform as presented by Governor Landon can be summarized as follows:

1. An expansion of foreign trade is desirable to help maintain world peace, to absorb farm surpluses, and to maintain the American standard of living.
2. A reduction of production is a "council of despair" and means that 1 out of 10 acres must be taken out of cultivation.
3. The present impasse in world trade is due to economic nationalism, fear, and imperialism in other nations. The United States cannot "scrap her economic defenses" because of these factors.
4. The reciprocal trade agreements must be abrogated.
5. To replace these agreements bilateral agreements will be made to exchange our surplus goods for goods we do not produce or can only produce at great expense.
6. The unconditional most-favored-nation clause would be replaced by a conditional most-favored-nation clause.
7. To protect the farmer, tariffs on all products competing with farm products would be raised.
8. Because some farmers sell on a world market and because the world price determines the home price and makes the tariff inoperative, subsidies will be paid to such farmers on all that is consumed at home, in order to prevent the undue lowering of prices because of exports, and to make the tariff effective.
9. These subsidies are to be paid until foreign trade is

[11] The affect of the reciprocal trade agreements upon the price of cheese is discussed in some detail in Chapter VI.

once more profitable and until long time conservation and land use programs remove the surplus.

10. To reduce short time surpluses from unduly depressing the market, storage loans will be advanced by the Federal Government.

11. A system of bookkeeping will be established so that we may know with whom we should, and can, trade.

12. The authority to make agreements and to change tariff rates will be returned to Congress or the Senate where it rightfully belongs.

13. The tariffs will be maintained to protect efficient American industry, efficient American labor, industries needed in the event of war, and infant industries.

14. The "star chamber" methods of the present regime will be done away with and all persons concerned will know what the proposed changes are and will be allowed to present their opinions.

15. The currency will be stabilized.

This program was presented as the supposedly realistic approach to a reduction of barriers and an expansion of world trade. It is obviously little more than Mr. George N. Peek's proposals dressed up in the language of politics to make them palatable to the farmer. And just as Mr. Peek's proposals lead, almost inevitably, to further restrictions and declining world trade, so do these lead to a more aggravated economic nationalism. Bilateral barter agreements would eliminate, at least in part, the very large volume of triangular trade which takes place between all nations. The use of the conditional most-favored-nation clause would tend to increase barriers against products in this country, so that all nations would have more concessions to make to us when we were ready to reduce our tariffs on any particular article. If the reduction or raising of tariffs again becomes a matter of open debate in Congress, the tendency will again be for every group which benefits from tariffs to press for a revision upwards while there will be little pressure exerted by any agencies desiring a lower tariff. History teaches us that, in the past, this method has always led to an increase in almost all effective

tariffs and to a reduction only in those tariffs which are not needed when the reduction does not allow increased inflows of goods, and greater competition.

The policy of paying a bonus to producers of export commodities, so that the tariff on them is made effective by raising the home price above the world price, is a doubtful suggestion because any such action on the part of the United States might easily be construed as dumping. If this were so, then, for every increase we made in the bonus, importers of our surpluses would place a tax equal in amount to this subsidy upon our goods, and, providing the world price remained the same for all nations, the price offered for the American product would decline equally, and the home price would again be lowered. Similarly, any scheme for storing commodities by advancing loans, "as part of the plan for removing the depressing effect of surpluses," is not sound because prices are determined by both the amount offered on the market and the amount held in storage. The Hoover Farm Board was founded upon a similar idea, and its collapse is an illustration of the risks involved in this procedure. Also, both the loan plan and the bonus plan involve grave political dangers because the actual amount of the loans and bonus would have to be determined by Congress as tariff rates were determined in the past, and few congressmen, valuing their seats, would vote for low rates if they represented a rural community. And, if rates were too high, then production would be stimulated and larger surpluses would pile up.

A further technical difficulty in providing protection for the efficient manufacturer, laborer, and infant industries would be the definition of this new word, efficient. One cannot imagine any manufacturer claiming that his production was inefficient and agreeing to a reduction in the tariff rates in order to put himself out of business. This is too much to expect even from the "considerate" manufacturers of Governor Landon. If this is true, then Congress will have to decide where the efficiency line lies, and

it again seems probable that all the pressure upon congressmen would be to place this line, so that every one producing at present could still do so; that would leave us exactly where we are. This whole concept of efficiency merely begs the question, because a firm which can produce efficiently enough to keep going under one tariff would have its relative efficiency, in terms of ability to make profits, increased by a rise in tariff rates and decreased by a reduction in rates. If the engineering concept of efficiency is used, then the costs of production in terms of man hours would have to be estimated, including also the man hour costs of the production of all capital goods involved, etc., and, finally, a definition of the efficient firm made in these terms! Again, an increase in tariffs, if it were effective in reducing foreign competition, would allow the most inefficient firm to become relatively more efficient because new firms with a still higher cost of production in terms of man hours would be able to produce at the increased price. A reduction of tariffs would have the opposite effect and the least efficient firm would be eliminated and one, which up to that time had been relatively more efficient, would become, under the lower rates, the least efficient. In every case, the standard is relative to the present tariff structure and changes with the changing rates.

The same problem presents itself in the protection of efficient American labor. What standard is there for measuring the relative efficiency of labor in various industries, except the ability to produce certain goods at the market price and make a profit? Where goods are only comparable on the basis of price, this is the only measure we can use, and this ability to make profits is dependent upon the tariff rates and the wages paid as well as upon other factors of business management.

Protection for infant industries has always been one of the soundest arguments for high tariffs, but, in the past, the trouble has been that industries seem to have a perennial childhood and, in an expanding economy, there have

always been a few firms in almost all industries which have just started to develop and, therefore, claim the need of protection.

All these factors make one doubt the possibility of achieving the stated object, of increasing world trade and maintaining the American standard of living by means of increased protection, bounties, and bilateral barter agreements. Instead, the whole tendency would be to further restrict world trade by increasing barriers, and represents a very definite approach to economic nationalism for the nation as a whole. Many consider that this would be the wisest course for this nation to pursue and strongly advocate this end. Others, who are in favor of an expansion of world trade and see this as the only sound policy for the nation as a whole, have opposed strongly the 1936 opposition platform. Mr. James P. Warburg, who was one of President Roosevelt's early economic advisers, but became one of the "New Deal's" most violent critics in his book "Hell Bent for Election," felt compelled to relinquish his newly formed allegiance to the Republican party because of this drift to economic nationalism.

> "Of his Roosevelt criticism, Banker Warburg wrote: 'I make no retractions.' Of Republicans: 'It is impossible for me to support an opposition which either will not or cannot recognize that economic nationalism lies at the root of our great difficulties. . . . .' "[12]

Opposed to this opinion of Mr. Warburg is the platform of those who uphold an "American self-contained," and who claim that the only solution to our great difficulties lies in economic nationalism. It is to the arguments of this group that attention is now directed, and the remainder of this treatise is an attempt to weigh these arguments and evaluate the probable results of an isolation policy as it affects the farming community. These same results would probably arise from following out the 1936 Republican policy to its logical conculsion and, for that reason, their platform has been rather fully set forth. Whether the de-

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[12] *Time*. October 26, 1936. p. 16.

cisive defeat of this party in the recent elections is a rejection of their foreign trade policy by the American people it is impossible to say. There were too many other factors involved to allow anyone to do more than guess at the weight attached to this one plank. In the future, the problem of which way America will go, toward economic nationalism or toward a greater expansion of world trade, will again have to be faced. The past history of tariffs gives no assurance that, once a policy of moderate protection is embarked upon, it will not be suddenly changed by a political upheaval or some unforeseen international event. Indeed, history would suggest that such a change is most likely to take place and, amidst the clamor of elections or chaos of some emergency, the fundamental issues between economic nationalism and world trade are likely to be forgotten, and we will drift back to the old high tariff system without having made any decision regarding the desirability or results of either way. One thing is certain; those who benefit from high protection will combine to agitate for a return to the "American system," and, as tariff reductions allow foreign competition to be felt, there will be even stronger efforts made to persuade the farmer that such a policy is the only sound one he can safely follow. It is to enable the farmer to see both sides of this question and weigh all the implications present in such a policy that this topic is discussed.

CHAPTER V

ARGUMENTS IN FAVOR OF AN AMERICA SELF-CONTAINED

International Considerations

The Old and the New Economic Nationalism

The ideal of an independent, self-contained nation is not new. The supposed dangers, inherent in trading with foreigners, were recognized by Plato who placed his ideal city-state inland in order to avoid the temptation of commerce and war. Aristotle also opposed trading in any of the necessities of life, but, as trade was a necessary evil, it might be permitted if it were restricted to luxuries only. The Romans, on the other hand, saw in trade the means of obtaining riches and encouraged it in every possible way. All through history the idea of a complete self-contained economy has been facing the idea of a great nation built upon trade. Germany has embarked upon a four-year plan with the definite aim of becoming independent from the world for her raw materials, and, possibly, to develop complete autarchy. This means a nation independent of both imports and exports and is a very different concept from the mercantilism of the eighteenth century which stressed the value of exports and harmfulness of imports which might drain away the nation's gold or prevent its accumulation. And yet both the modern German movement and the older philosophy of mercantilism are based fundamentally upon the fear of war. In the seventeenth and eighteenth centuries, gold was essential for a successful war; with it a nation could hire troops, and feed them,

and without it this could not be done. Germany today desires to be self-contained, so that no foreign nation may starve her into submission, nor weaken her army by preventing imports of essential raw materials. Today, not gold, but food, cotton, and chemicals are the sinews of war.

Organizations Supporting an America Self-Contained

The American movement towards economic nationalism is not, like that of the early mercantilists and modern Germany, a movement founded upon fear. It is, essentially, a movement based upon an ideal of a finer and happier American way of life. At least, that is the feeling one is given by a perusal of *America Self-Contained* written by Samuel Crowther. Mr. Crowther, however, is not the only person who has been advocating economic nationalism for this nation; Mr. Francis P. Garvan, President of the Chemical Foundation, Inc., has published many pamphlets and books on this new philosophy of "Americanism."

These publications are a strange mixture of scientific facts, reckless and bitter attacks upon personalities in the present administration, naive ignorance regarding the simplest economic concepts, self righteousness, and illogical reasoning. Mr. Garvan paints the picture of the innocent American business man being deceived by the deceptive guile of foreigners, for whom he appears to have a deeply rooted dislike and distrust. Somehow it is difficult to believe that all this invective is inspired purely by Mr. Garvan's love of his fellow Americans and burning ideals for his own nation's future. Surely, such a dreamer would be more kindly to his enemies. Also, that persistent voice at the back of one's mind keeps reminding us that the chemical industry has profited tremendously from our high tariffs, and would profit very much more from any increase in tariffs. It seems almost impossible to believe that all these publications[1] have been put out purely as "educational" material seeking only the good of the nation as a whole.

[1] Many of these publications are listed under literature cited.

Mr. George Peek has joined hands with Mr. Crowther and published a book *Why Quit Our Own?* This book deals with Mr. Peek's difficulties with the administration, previously referred to, and while sharing Mr. Crowther's partiality for figures, Mr. Peek also shares Mr. Garvan's partiality for invective and antagonism to "Professors" and "Bureaucrats." While differing in methods of presentation, these three protagonists of high tariffs have a similar end in view, and use almost identical arguments to support the wisdom of their ideas and to show the futility of any hope of a rich, stable America if we remain dependent upon foreign trade either for imports or exports.

Apart from the writers mentioned above, the depression has brought into being a large number of "Buy-American" movements. The Department of Commerce lists the following national organizations as advocates of Buy American: Buy Uncle Sam's, Inc.; American Trademark Association, Inc.; Buy American Association; The American Patriotic League; Made in America Club; Citizens Association for America First, Inc.; National Retail Dry Goods Association; League of American Salesmen ("Sell American"); National Buy American League; National Made-in-America Association; Association for America First.[2] Mr. William Randolph Hearst supported the movement and stated, "I buy American and spend American. See America first. Keep American money in America, and provide employement for American citizens."[3] In the New York American his philosophy is expressed even more clearly:

> "Americans must buy American Goods—the products of American labor and American capital—to the exclusion of any other goods, of any other products, of any other services, of any other labor—whatever part of the world they proceed from and at whatever price they are offered."[4]

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[2] C. K. Alexander, Edwin M. Fitch, and Haldor R. Mohut. *The Truth About "Buy American."* Research Associates, Madison, Wis. 1933, p. 19.

[3] *Ibid.*, p. 7.

[4] C. K. Alexander, Edwin M. Fitch, and Haldor R. Mohut. *The Truth About "Buy American."* Cited, p. 8.

Apart from these "Buy American" organizations a "Committee for America self-contained" was established with offices at 57 William Street, New York, N. Y. This organization distributed pamphlets "America self-contained" and organized discussion groups where there was enough interest. The movement received widespread attention and considerable support.[5] This organization has now ceased to operate. The Chemical Foundation of 654 Madison Avenue, New York, N. Y., has probably been the most prolific producer and distributor of publisted materials openly advocating economic nationalism, or describing recent scientific advances in the chemical world which would allow new products to be made in America if only they were given a high enough protection. This Foundation is richly endowed from funds received from the German chemical patents sold to chemical industries during the war and will probably continue to do this so-called "educational" work in the future as well as continue its research work.

The Ideal Upheld

Before presenting these arguments for an "America self-contained" in detail, let us take a glimpse at the ultimate ideal toward which it is all directed. We see a great nation, the United States of America, living in an era of prosperity and peace. The nation is self-contained. No foreign wars can disturb it, no foreign money markets affect its price levels, no change in foreign ability to buy or sell affects this nation. It is self-contained; it has solved the problem of a balanced harmony between city and country; it has no unemployment and no poverty; its chemistry, other sciences, and inventive genius have increased its real wealth immeasuurably. The country extends from the arctic to the equator, it grows a vast number of fruits and vegetables; its sheep graze the mountains and its industry

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[5] See Appendix B for statements made by some influential Americans regarding the program of the committee.

is spread into the rural area. Gone the old congestion and slums, gone the inability to control our own affairs, gone the poverty and depressions of the past.

> "This new freedom is not political but economic, and, just as it was given to the United States to begin a new era in political freedom, so it has come to pass that today the United States, for long the most nearly self-sufficient of nations, has through the labor of her scientists become wholly self-sufficient and hence able to take the leadership in developing a new political economy of freedom. No nation has ever before been given the opportunity to have and to hold a complete liberty and no nation has ever before had the opportunity wholly to shape its own destiny. Even Rome at the pinnacle of her power had to depend on far-flung provinces for the necessities of life.
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> "The question, therefore, which is presented to every American, is whether the United States will take the opportunity which is offered to shape her own life in her own way and in accord with her own ideals, or whether this opportunity will be thrust aside for an elusive and delusive old-world concept of sordid international shopkeeping.
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> "The choice is between abolishing the poverty that is in America and the mingling of it with the poverty of other nations.
>
> "The choice is between becoming a leader in a new and unselfish arrangement of the world and becoming a power in an attempted revival of that old system of world economy which has been thoroughly tried and which has thoroughly failed.
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> "The choice is exactly as simple as that." [6]

That is the new "American Way." It is the end toward which America has been striving blindly ever since the first protective tariff followed the Revolutionary War. That first revolution was to establish our freedom from economic oppression by England; nearly all tariff measures since then have been designed to encourage our industry and protect it; this last step is the logical culmination of our past history. But, most important of all, this choice is being thrust upon us by the advancement of science and the events taking place in the international

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[6] Samuel Crowther, *America Self-Contained.* Doubleday Doran and Co., Inc., N. Y. 1933, p. 4.

field. Mr. Crowther traces the ancestry of the present movement back through H. C. Carey, Abraham Lincoln, Frederick List, Andrew Jackson, Henry Clay, Thomas Jefferson (who was converted from his free trade theories to a practical view by the war of 1812), Alexander Hamilton to Benjamin Franklin and George Washington. Since these earlier advocates of protection, the vast development of science, and particularly organic chemistry, has created a new world in which the dreams of these great men may come true.

In presenting the arguments in detail, a rather arbitrary division has been made in order to prevent overlapping and repetition. One group of reasons, used to prove that America should turn to economic nationalism for her salvation, is the general development of our economic life from an international point of view; a second group of reasons used are those relating to the internal functioning of this nation; while a third group presents a new theoretical foundation for an acceptance of self-containment as a sound economic policy for this nation to follow. These groups will be taken in the above order and further developed. In discussing these arguments presented, of which some are new and some very old, no new body of theory has been developed, but the generally accepted classical doctrine (as developed fully by John Stuart Mill and later re-expressed in more detail by Professor Taussig and others) has been used in considering the newer conditions and challenge of the present day. The advocates of economic nationalism have made such extreme claims, regardless of any economic reasoning whatever, that a discussion of these statements has been considered essential, even though it may appear tedious and mere repetition to the student of economic theory.

Natural Advantage Destroyed by Science

Self-containment is claimed to be desirable from an international point of view because scientific advances have done away with so-called areas of natural advantage.

Synthetic nitrogen has replaced the nitrates which had to be imported from Chile in the past; American synthetic nitrogen plants have a capital investment of 80 million dollars, and we have become independent both in peace and in war. Foreign ammonium sulphate cost $60.00 a ton in 1914, $38.00 a ton in 1931, and $20.00 a ton in 1932.[7] Rayon is replacing silk and, to some extent, also cotton. The growth has been very rapid since the war, and during the ten-year period from 1921 to 1931, production has increased from 15 to 144 million pounds per year. Recent discoveries of potash in New Mexico have relieved us from depending upon French or German supplies. Camphor is now produced synthetically, and a new compound has been developed which can take the place of rubber, and is even superior to rubber for some uses because it is resistent to oil and heat. At present the synthetic product costs about $1.00 a pound but this could be reduced to twenty-five cents by mass production methods. This new material "Du Prene" seems to be entirely satisfactory for all rubber uses and is manufactured from coal, limestone, salt, and water.[8]

A further important development has been the successful production of newsprint paper by Dr. Charles H. Herty at Savannah from the southern pine. Papers have been successfully printed on this new Georgia product. The total conversion cost was estimated at $19.06 per ton with capital charges running at $12.64 a ton making a total of $31.70. An estimate on the cost in Canada gave a figure at $27.90 per ton for conversion costs which must be compared with $19.06 for the southern pine costs. The Association of Newsprint Manufacturers of the United States states that newsprint paper cost them $43.28 per ton in 1933 for 427,299 tons with the plants (24 companies) running at 70.8 per cent of capacity. This represents over 97 per cent of all newsprint produced in the United States.[9]

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[7] Samuel Crowther, *America Self-Contained*. Cited. p. 98.

[8] *Ibid.*, p. 106.

[9] Francis P. Garvan, *But Only God Can Make a Tree*. Deserted Village No. 2. Chemical Foundation, Inc., pp. 36-38.

At the Annual Meeting of the Canadian Pulp and Paper Association in January, 1934, Mr. A. A. MacDiarmid presented a paper on the danger of southern pine newsprint to Canadian exports and stated that the southern mills would have an advantage of between $8.00 and $9.00 per ton over the Canadian mills.[10] In his letter to the President of the United States, Mr. Francis P. Garvan states,

> "During the last four years imports of wood paper and paper base stocks into the United States have amounted to an average of over $170,000,000 a year.
>
> "This amount goes abroad and is lost to our national economy each year, and what we get for it is used and goes down the sewer.
>
> "This amount is, roughly, 70 per cent of our yearly consumption.
>
> "This $170,000,000 a year, if spent here, would revolve and again be spent ten times, so $1,700,000,000 worth of business each year is lost to the economy of our country."[11]

Mr. Garvan then advocates the United States taking up the production of newsprint or protecting it in order to give employment to American labor and to find a use for the land now being taken out of cotton production. The economics of Mr. Garvan's statement will be discussed later but the important fact here is that we could become self-contained with regard to newsprint if we so desired. The requested need for government help is not readily apparent in the face of the claim that newsprint can be produced as cheaply as stated.

Another change which must come in the near future is the replacement of gasoline by a new product manufactured by hydrogenating coal or by alcohol manufactured from corn or other raw materials of a similar nature. The United States Geological Survey in its report to a subcommittee of Congress stated,

> "It should be urged that making provision in advance against the day, certainly not long distant, when waning, domestic petroleum reserves will fall shorter and still short-

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[10] Francis P. Garvan, *But Only God Can Make a Tree*. Deserted Village No. 2. Chemical Foundation, Inc. p. 18.

[11] *Ibid.*, p. 3.

er of meeting American domestic needs, is not only natural and logical—it is fundamentally sound and necessary."[12]

The shortage may be felt in from five to eight years and possibly not for ten years, and then prices will begin to rise.[13] To meet this future need and to conserve our present resources it is suggested that alcohol be used to make up a 10 per cent blended fuel. This would largely be manufactured from corn or potatoes, or other starch containing agricultural products, and would remove much of the surplus. Mr. L. S. Bachrach estimated, however, that the added cost of a 10 per cent blend to the farmers of Iowa for all the gasoline they used would be, at all prices under 75 cents a bushel, much greater than the price they received for their corn that was converted into alcohol and that, from an economic point of view, the whole scheme of making the used of a 10 per cent blend compulsory was ridiculous.[14] The suggestion put forward by the Chemical Foundation is a rebate of two cents a gallon, of a 3 cents a gallon Federal gasoline tax, for every gallon of gasoline used in 10 per cent blend with alcohol.[15] The proposed tax remission has not been granted nor has it been demonstrated as wise at this time. It is a question of conserving our natural resources in oil rather than squandering them in the same way that we squandered our timber resources in the past. And the day will undoubtedly come when we will be obliged to use some substitutes for gasoline or become dependent upon imports from other nations. Do we desire to become dependent or should we meet this problem now and be prepared to produce our own motor fuel?

In the same way our dependency upon imports of metals which are not found in America is rapidly being corrected by the development of new alloys which can

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[12] Petroleum Investigations: Hearings before Sub-committee on Interstate and Foreign Commerce. 73rd Congress, Washington, 1934, p. 892.

[13] Leo M. Christenson, Ralph M. Hixon, and Ellis I. Fulmer, *Power Alcohol and Farm Relief*. Deserted Village No. 3, Chemical Foundation, 1935, p. 39.

[14] L. S. Bachrach, quoted by Christensen, Hixon, and Fulmer, *Power Alcohol and Farm Relief*. Cited. p. 148.

[15] *Ibid.*, p. 172.

replace the imports for practically all purposes. Sugar can be produced from the beet to provide all that this nation needs, and we have synthetic drinks which can take the place of tea and coffee. Not only that, but, it is claimed, our dependency on Germany for her dyes and chemicals has been eliminated by the development of the American chemical industry both during and after the War, when even the idealistic President Wilson saw the danger of our dependency and raised tariffs to protect the new war industry of chemical manufacture.

This is the basis of the claim of a new era that has made self-containment essential and economically possible. To-day, America, and many other areas of the world, can best develop upon a scientific economic nationalism which will allow us to solve our internal problems free from outside interference. In discussing this problem, it is assumed that the facts as presented are substantially true. Science is changing our world and will continue to do so in the future. The problem is, will a policy of self-containment under these circumstances be better than a moderate protective policy fostering international trade? Natural advantages certainly have not been entirely eliminated up to the present. The Tariff Commission lists 352 commodities in which certain foreign countries have a definite advantage over America due to natural causes such as climatic or geographic differences, or due to some articles involving a great deal of highly skilled hand labor. On the other hand the United States possesses a clear competitive advantage with respect to 200 products.[16] To refuse to exchange these commodities is definitely accepting a lower standard of living. Only when new processes are more economic, should they be encouraged to replace our present system. Before any rash action is taken, the cost must be estimated and, particularly, the cost to the ultimate consumer, including the farmer. This will be discussed more fully in a later chapter.

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[16] The Tariff Commission. *Economic Analysis of Foreign Trade of the United States in Relation to the Tariff.* Washington, D.C., p. 76.

Mobility of Capital Allows Cheap Labor to Become Efficient

A second argument, used to uphold the ideal of economic nationalism, is the fact that the international mobility of capital has carried capital goods and mass production all over the world; also modern machines can be operated by unskilled labor, thus destroying any advantage of personal efficiency, and allowing cheap labor to manufacture goods just as excellent as those made by highly paid skilled labor.

Mr. Crowther shows that, up to 1905, only a few branch factories were established abroad but, after that year, the rate increased rapidly until forty-three were established in 1920. In 1927, forty-three new plants were established; in 1929, the number was seventy; and in 1930, it was sixty-four. By 1932 the United States companies had 711 branches abroad and 1,819 foreign incorporated units, of which 108 were foreign controlled. The investment is over two billion dollars. Five hundred twenty-one are in Canada and the automotive industry is the predominating one.[17] Regarding labor he states,

> "Mr. Ford had demonstrated in his American factories with persons of all races and colors that there was no job in production under his methods of sub-division that anyone could not learn in a week."[18]

Sir Percival Perry, chairman of the British Ford Company, upheld the same point of view when discussing relative costs. He stated that the process of manufacture of Ford cars is identical throughout the world, and that they compared "minute costs" in twelve different countries where their own nationals were used in the factories. They found that the minute costs were lowest where wages were highest, and that an increase in wages resulted in a reduction of minute costs and,

> "Last but not least, I know you will be interested to hear that these comparative statistics have enabled us to establish

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[17] Samuel Crowther, *America Self-Contained.* Cited. p. 196.

[18] *Ibid.,* p. 195.

the fact that the American working man is no miracle monger. Neither is the British, Irish, or Continental artisan any inferior creature. Given like conditions and treatment, our workers here in Europe actually beat their American cousins, as proved by the standard of our minute costs." [19]

Because of these factors, international trade is being reduced, and areas of cheap labor can undersell our home industries on the American market. Therefore, we must restrict foreign competition by high tariffs, and set our sails to carry us into the safe harbor of self-containment.

Again one can admit the truth of these facts without agreeing upon the circumstances which caused them. In the case of Canada, for instance, the great increase in the number of American branch factories was due to the increase in Canadian tariffs erected as a retaliatory measure against the Smoot-Hawley tariff of this country. In many cases these industries could have been maintained in the United States if we had not erected our tariff wall so high that the foreign nations could not send their goods in exchange for ours. In other words, the branch factory movement is more a product of high tariffs than a cause of them. In many cases, mass production can only be carried on effectively on such a large scale that no small nation can possibly establish factories on an economic basis. How many of the small European nations can buy the products of a large efficient typewriter factory, sewing machine factory, farm machinery factory, motor car factory, or even a radio tube factory? Mass production has increased the need for international trade if full advantage is to be made of the enormous productive capacity that has been released by the new science. Of course, we can leave the European nations to work out their own exchanges, and set our highly paid and highly productive labor, employed on making cars and typewriters, to hoeing sugar beets; but is the ideal of self-sufficiency worth it? That again is a matter of costs, and how much we are willing to sacrifice to attain it.

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[19] Samuel Crowther, *America Self-Contained.* Cited. p. 198.

Other Nations Developing Self-contained Economies

The third argument from an international point of view, is that other nations are tending to develop national economies and no longer want our goods; therefore, because the world tendency is towards self-containment, America will be forced to become self-contained in the end. For example, Germany, Italy, France, and finally the British Empire, are all striving to become self-contained units. Nationalism, it is true, has become rampant in certain European countries. But have they developed this from a purely "Nationalistic" point of view? Did Germany, for example, restrict her imports of agricultural products from the United States because she became more nationalistic, or did she become more nationalistic because the United States, and other nations, refused to accept her chemicals and manufactured goods in exchange for the food and raw materials she needed? How could Germany pay her debts or her current import bills if no one would accept her goods except at ruinous prices? If no one would accept German manufactured goods, then Germany was forced to cut down her imports; she was forced to tighten her belt and lower her standard of living; she was forced off the gold standard and erected currency controls to prevent all the gold leaving the country; she was forced to seek for new sources of raw materials, German sources; and possibly the future may say that Germany was forced into war. Certainly it can be said that German nationalism is not a voluntary movement based upon the economic needs of her people.[20] How much economic forces have been the

[20] In 1913 German imports were $2,563,300,000 and her exports were $2,402,900,000. From 1923 imports increased steadily from $1,447,100,000 to $3,366,100,000 in 1927; exports, however, did not increase as rapidly and rose from $1,446,800,000 in 1923 to only $2,432,100,000 in 1927. Thus for this five-year postwar period Germany had an adverse balance of trade and at the same time was a debtor nation. From 1927 German imports declined steadily to a low point of only $1,258,600,000 in 1932; during this second five-year period exports exceeded imports from 1929 on, but only because exports did not fall as rapidly as did imports. In 1933 imports had declined 46.2 per cent and exports 33.5 per cent compared with 1913. The continued adverse balance of trade from 1923 to 1928 seems to have made the collapse which followed inevitable. (Values in Canadian dollars, figures from the Canada Year Book, 1934-35, pp. 549-551).

cause of the rise of the present nationalism, or how much is due to psychological anti-Versailles-Treaty reactions it is impossible to say. To blame Germany entirely is obviously unfair.

In the case of the Empire trade agreements made at Ottawa, we have little doubt that the American high tariff policy offended Canada deeply;[21] it forced her to depart from a quarter of a century's peaceful trading with this country and to seek a closer bond with Great Britain and the other nations of the Commonwealth. Many of the leaders in the movement hoped that the arrangement would be only temporary, and that, as other nations reduced their tariffs, so could the nations in the Commonwealth reduce theirs. Canada was very willing to make an agreement with the United States as soon as this nation was ready to revoke her Smoot-Hawley rates and accept goods in exchange.

France recently went off the gold standard and, at the same time, reduced her tariffs and increased the quotas of imported goods. Indications point to England's readiness to return to a more liberal trade policy as soon as other nations are willing to do so. The following incident, quoted from *Time,* is rather typical of Britain's attitudes at present:

> "Whereas Mr. Baldwin has been pleasantly vague about world economic recovery by the lifting of trade barriers someday, Mr. Chamberlain declared, 'All indications are that we have left free trade behind forever, or until the whole world agrees to abolish tariffs on imports, which comes to pretty much the same thing!'
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> "This Chamberlain pronouncement embodying the Chancellor's usual pessimism and cynicism, came just before two epochal events. Suddenly the tariffs and quotas of France

[21] Joseph M. Jones, in his book, *Tariff Retaliation,* University of Pennsylvania Press, Philadelphia, 1934, p. 176, states, "That the Congress of the United States should deliberately antagonize and alienate every element in that Canadian population which purchased in 1929 nearly one billion dollars worth of American products, that Congress should provoke the Canadian people into a fury of economic nationalism, will doubtless rank as one of the greatest economic blunders in American tariff history."

This does not appear to be too strong a statement of the effect of the Smoot-Hawley Tariff.

were slashed, and this was followed even more unexpectedly by Benito Mussolini with similar action on behalf of Italy. Overnight on the international scene new life was breathed into the principle of Free Trade, and there was a wild scramble by His Majesty's Government to readjust their ideas to Mr. Chamberlain's—to Geneva this week hurried the Chancellor's most distinguished subordinate, Mr. William Shepherd Morrison. In the only speech to the current League Assembly which had any real importance, Mr. Morrison virtually reversed the highly nationalist position Mr. Chamberlain had taken at Margate, called for international abolition of import quotas and exchange controls." [22]

Can it be that the new attitude of America is already bringing forth fruit? It seems quite certain that other foreign nations are as willing to trade as we are, but the mental antagonisms and distrust created by past barriers, and the destruction of any faith that the war to end war had brought in a new era of international economic cooperation, take a long time to heal.

Self-containment Leads to Peace

Closely associated with this last point is the argument that areas of self-contained economics will do away with many of the friction points of the past, which have been largely due to competition for raw materials and markets. The reduction of these friction points will lead to freer cultural exchanges and make world peace and harmony more possible. Like the previous argument, this one has two sides to it. Of all the nations in the world only the United States of America and the British Commonwealth of Nations have the varied natural resources capable of approaching self-contained economy and at the same time maintaining a reasonably high standard of living. If we, or the British, refused to supply the world with any surplus raw materials, and closed down our markets completely to all foreign goods, would it make for peace and cultural intercourse? If such a plan were put into effect,

[22] *Time*. October 12, 1936. p. 19.

what would Germany be forced to do to obtain her needed raw materials? What has economic isolation of Germany by the world forced her to do at present? Can we morally face the danger which might be created for other nations by any such action? The world is not, today, divided into economic units, except the two mentioned, and, before other self-contained units developed, there would inevitably be war. Could this nation, with all its ties to Europe, allow such a process to take place? These are fundamental questions we must consider before advocating economic nationlism as a way out of war. If the United States followed that path alone, it might conceivably help in keeping this nation out of war, but not the rest of the world. And there is an alternative way. It is the way of international co-operation. On October 5, 1936, the British proposed, to the economic committee of the League of Nations, that the Council name a commission to study "the question of equal commercial access for all nations to certain raw materials." America could co-operate without, as Mr. Crowther fears, "giving away the control of her markets or finances." To refuse to do so, is tantamount to a refusal to believe or recognize the implications to world society, of a world-wide science and a world brought close together by modern means of communication. World peace will come through closer co-operation rather than through greater isolation and separation of the "haves" from the "have nots."

None of these arguments dealing with international trends and world developments seem to be valid as a basis for developing an America self-contained. The movement needs a much firmer basis if the people of the United States are to adopt it as a national policy. These more important considerations are our own national economy as it is affected by foreign commerce, and whether we can develop a higher standard of living, and finer social structure, under a regime of economic nationalism.

CHAPTER VI

THE ARGUMENTS CONTINUED

National Considerations

A Stable Home Economy and Price Parity for Agriculture

The first objective of economic nationalism, as put forward by its most ardent proponents, is a stable home economy. A balance between industry and agriculture must be maintained, the price level must be nonfluctuating, and prosperity must be made permanent! This ideal internal economy of balance cannot be maintained while the American price level is subject to variations due to forces outside the nation. Mr. Peek, as we have seen, advocates the two-price system; a home price high enough to keep the farmer profitably in business, with the surplus sold abroad at a world price. The difference between the two prices is made up by a bounty to the farmer when the world price is too low. The bounty is to be collected through processing taxes. In the final analysis, the government sets the home price the farmers are to receive. Mr. Crowther suggests a similar plan but includes a domestic quota basis upon which the minimum price, set by the Secretary of Agriculture, must be paid. Surpluses above the quota are to be sold at world prices. Mr. Crowther's plan is open to the same fatal objection that makes Mr. Peek's plan unsound. Other nations would construe as dumping any such dual price system. Almost every nation with which we trade has an anti-dumping law which permits them to place a tax, or increase its amount, on any article which is being imported at a price lower than that prevail-

ing in the country of origin; and this tax can equal the full amount of the differential between the two price levels. No protestations on our part, that we are only attempting to help our own farmers and have no intention of hurting anyone else, will persuade other nations to accept our goods at prices lower than those prevailing on our domestic market.

Other nations selling similar commodities, in competition with ours on the world market, would also object strongly to our surpluses being sold abroad at any price, no matter how low, because this would lower the price they received for their products; and, because the American farmer had a protected home price for his products, he would not be forced to curtail production and reduce the surpluses, which could, therefore, continue to depress the world price, and cause a great deal of suffering amongst the unprotected producers of those goods sold on the world market in competition with the American surpluses. The United States does not allow goods to enter at ordinary tariff rates when they are sold to us at a price lower than the price prevailing in the country of origin, but places an equalizing tax upon them and, in some cases, an embargo or quota restriction as well. America must learn that, while other nations depend upon world prices for their products, any attempt by this country to maintain home prices above world prices, and continue our exports, will be met with strong opposition by the countries importing our commodities and also by those countries selling competing commodities on the world market. The almost inevitable reaction would be a series of retaliatory actions by nations of both groups.

Scientific Farming to Give Lower Costs

While openly supporting Mr. Crowther in his plan for raising farm prices and demanding that the tariff be made effective for agriculture, the Chemical Foundation and the industries it represents seem, by their arguments, to go to undue lengths in order to persuade the farmer to vote for

the high tariff policy in general. The gain to the chemical industry from high tariffs is obvious. It means a much greater degree of monopoly, and the ability to fix prices at the level where the industry will obtain the greatest profit. Of course they could produce as much as possible, of as high a quality as possible, and at as low a price as possible. That this latter aim must be the objective of the "business" man of the future, most people will agree; that it has not been the objective in the past, has been shown in the earlier analysis describing the rigidity of industrial prices. High prices for raw materials are not, however, conducive to high profits or large sales and, in reality, the chemical industries would profit by low prices for farm products, and the farmer would have to make his living by more efficient production and reduction of costs.

This view is supported by a book written by Dr. W. J. Hale, the research consultant of the Dow Chemical Company. Dr. Hale pictures the new world dominated by chemical science, with a new economics adapted to the change. Intense nationalism is one of the logical outgrowths from this new version of "Our Brave New World." If Dr. Hale had his way, we would have to establish a central Fascist State, with the chemists in complete control organizing it all very scientifically for our happiness. If the chemical industry were given the protection it asks for, it seems clear that, in five or ten years time, it would so control our economic life that the people would have no need to vote the chemists into power; unless of course they made the irrevocable mistake of reducing purchasing power too much; and caused a grander depression than the one just experienced. A few quotations will reveal the concepts within this book.

> "The underlying principle is simply stated: each and every man, at whatsoever spot on this earth, has abundant opportunity to feed, clothe, and house himself by chemical adoption of the things about him. Any government that essays to limit these rights, through indirection or thwarting of his proper protection, by violating such laudable pursuit, is doomed to destruction. And blessed be the day that destruction comes to the unscientific! Any man or

group of men who assail the rights of others to this self-containment shall be cursed forever."[1]

"As scientific management comes to the fore, the internal balance in any one country is more likely to be assured and consequently the country itself becomes more and more self-contained. Thus to speak of prosperity dependent upon the exchange of wealth between nations is an insult to a scientifically minded people.

". . . . If we would become a power in highly diversified manufacture we must have a tariff of our own making,—no advice from without. Foreign nations are not in the habit of throwing anything our way save obstacles,—and yet we have pacifists or decadent mentalities still extant!"[2]

These are strong statements, indicative of the strong conviction held, that the chemical industry and the chemists must dominate completely the life of the nation. If, as Dr. Hale believes, the chemical industry must dominate our future life, then he presents an excellent argument for the social control of that industry by the government. Almost all his arguments, concerning our scientific background and the trend in the future, are basically sound arguments for a very rigid social control of our economic life. This fact is not mentioned anywhere in the book, and the only function of the government appears to be the erection of such high tariffs that the chemical industry can go ahead and become omnipotent in the economic life of the nation.

Lower Prices to Give New Uses for Agricultural Products

In analyzing the plight of the farmer, Dr. Hale sees the replacing of horses by the tractor as "the greatest catastrophe ever known to the farm." The farm cycle was wrecked. Besides this, the farmer bought too much because of the "asinine supersalesmanship" with its "piffle" over the radio. Through this, "much of recent indebtedness on the farm has been incurred."[3] This is quite contrary to the

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[1] William J. Hale, *The Farm Chemurgic.* The Stratford Company, Boston, Mass, 1934. Distributed by The Chemical Foundation, Inc., p. 28.

[2] *Ibid.*, pp. 30 and 31.

[3] *Ibid.*, p. 100.

general conception that lack of purchasing power was one of the curses of the farm group. His solution lies not in production control, which would raise prices, but in the utilization of farm products for non-food manufacturing uses and lower production costs.

> "When we come back to the farm and adjust farm produce for industrial use, then and then alone shall we be able to establish mutually progressive activities in both farm and industry."[4]

> "Chemi-biological study reveals how we may grow all manner of farm produce at lower costs and greater yields per acre. . . . . there is no necessity in cultivating anywhere near as much acreage as now cultivated in order to supply our foods.
>
> "Today we can garner from 100,000,000 acres of our lands, under proper cultivation, all the produce required in supplying the citizens of the United States with their requisites in food and raiment. . . . . In fact, about one farmer out of five can ably deliver to us all of our requirements in the way of food and raiment supply . . . . we may confidently look forward five or six years when the total requirements of our citizens for foods and raiment will readily be supplied through intensive cultivation of a mere 50,000,000 acres of properly fertilized land."[5]
>
> "Certainly those who advocate a rise for farm produce can have no comprehension of what scientific adapatations signify. . . . . Supplies are going to get cheaper and cheaper no matter what governments may do."[6]
>
> "Herein lies the means of diverting the industries toward agricultural products as ideal raw material. Of course only the lowest priced material can first enter into consideration. What folly then for anyone in government or other positions to preach higher prices for farm produce! From the scientific standpoint such preachings are decidedly unorthodox if not unholy."[7]
>
> "In place of cutting down crops we must increase crops to such extent that industry may acquire a constant and de-

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[4] W. J. Hale, *The Farm Chemurgic*. Cited. p. 114.

[5] *Ibid.*, pp. 120-121. In direct opposition to this statement the division of information of the A.A.A. has estimated that it would take 335 million acres to supply a liberal diet (No. 4) for the American people. It has also been estimated by the U.S.D.A. that the less productive farms, forming 48 per cent of all farms, produce only 10.8 per cent of all products sold. These facts are discussed more fully in Chapters VIII and IX.

[6] *Ibid.*, p. 123.

[7] *Ibid.*, p. 137.

pendable source for needed raw material. There is no hope under Heaven for agriculture to over-supply industry when once industry adapts the new discoveries to her enterprise."[8]

This great expansion of the new industries will be in the manufacture of plastics to take the place of many of our metal uses at present. Also alcohol will be made from millions of bushels of corn or other products rich in carbohydrates.

"For example, the super-fuel agroline, or gasoline containing at least 10 per cent anhydrous ethyl alcohol and a blending agent, should be removed from all state and federal tax. This is the equivalent of placing a duty on some article whose manufacture in this country is to be encouraged. This exemption from tax should continue for at least five years. The immediate effect will be to encourage the manufacture of agroline and thus increase alcohol production generally.

"In the same manner all automobiles, containing at least 10 or 15 per cent of their weight in laminated or other plastics, should be exempt from taxation. The immediate effect here, just as above, will be to encourage greater production of plastic. . . . . The loss in state and federal revenues is no loss at all in the end; but if temporary aid must be forthcoming we have the sales tax to call upon. . . . .

"If our citizens look not with favor upon this chemurgical development on the farm it may be left to our industrial units to take over sufficient land for the supply of organic raw products best suited to each particular industry so choosing to expand. This corresponds to what is called vertical expansion of industry. By this means our industries can subvert that unscientific scheme that holds for higher prices for agricultural products.

"The sad part of this alternative measure is the utter peasantry it holds in store for the farmer. His future will be far from rosy; his spirit of individualism and his initiative well nigh scattered to the winds."[9]

The net result of the program outlined above would be a decline in the steel industry due to the subsidizing of plastic materials, higher prices for the goods the farmer buys because of sales tax and tariff increases, and lower prices for the goods he produces. By eliminating imports,

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[8] W. J. Hale, *The Farm Chemurgic.* Cited. p. 139.
[9] *Ibid.*, pp. 197-199.

his export market would be further restricted and greater surpluses would accumulate. One wonders how Mr. Garvan, whose organization distributes Dr. Hale's propaganda, can reconcile this view, with the demand expressed in other publications of the Chemical Foundation, that the tariff be made effective for agricultural products in order to increase home prices?[10] Apart from the effect on the farmer, this plan would bring in a still greater rigidity in industrial prices. Unless some strict government control were exercised over the new industries, we would have no assurance that they would not use their new techniques and new power to create large profits and keep up prices. As far as the author is able to ascertain, the present chemical industries have shown no great desire to cut prices and reduce profits and interest payments.

Population and Rural Life

Nowhere do the originators of this new philosophy of "industrialization of agriculture" give consideration to the problem of supplying our cities with people. During the process of industrializing our farms, there would be a large influx of farm population to the cities, but once this first migration had taken place our farm families would still have to supply our industrial and commercial centers with man power and, without this steady influx of population from the rural areas, they would rapidly decline. While it is not the primary function of farm life, the maintenance of a numerous and prosperous farming population is considered essential unless we are to face the problem of a rapidly declining population after 1960. A rapid decentralization of industry might introduce a compensating factor but, at present, there is no indication that this is taking place, in spite of its many advocates, as Dr. Daniel B. Cromer has shown in his recent book, *Is Industry Decentralizing?*

This whole problem should be attacked from the standpoint of the conservation of our natural resources in

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[10] Fred W. Sargent, *The Importance of Agricultural Welfare.* The Deserted Village No. 9, Chemical Foundation, Inc., N.Y., 1936. pp. 30-33.

minerals, oils, forests, and soils. This could probably best be done by a legislative limitation of output and use. It represents a further modification of property rights in line with the general world trend. As prices rose due to restrictions of output, when cheap imports could not be obtained, the new products could be manufactured to take the place of those declining in quantity. Certainly, it would not be economic to approach the problem from Dr. Hale's point of view. Regarding the stabilization of our national price structure and establishment of a balance between agriculture and industry, neither the plan suggested by Mr. Peek, nor the one offered by Dr. Hale seems feasible, nor do they do anything whatever to relate purchasing power to productive capacity.

The Preservation of the Home Market

The second objective, from a national point of view, that is put forward by the proponents of economic nationalism, is the preservation of the home market for American producers. This objective was accepted as one of the basic planks in the 1936 platform of the Republican party. It has been the basic argument used to criticize the imports of some agricultural products from Canada. In support of the home market argument, it is pointed out that,

> "The average income per capita of the whole world, including the United States, was $153 in 1929. For the United States it was $657. In 1930 the average *retail sales* per capita in the United States were $407, which is larger than the average net *income* of any people except the Canadians.
>
> " 'From a purely practical sales standpoint,' writes Mr. Crowther, 'the possibility of making sales in the United States so transcends the possibilities of other markets that dwelling upon the absolute necessity of foreign sales in order to have prosperity is quite absurd.' " [11]

Other points stressed by Mr. Crowther are the facts that America does over half of the world's total trade within its own borders and that, even at the peak, only about 10

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[11] Committee for America Self-Contained, *Memorandum on America Self-Contained,* 57 William St., N.Y. p. 13.

per cent of our production was exported and then only by making large foreign loans.[12] By protecting the home market for the home producer, prices of farm products could be raised and unemployment reduced. Some of these arguments are scarcely deserving of attention. One hesitates to burden the reader with a restatement of generally accepted principles in their refutation.

Mr. Garvan's statement, previously quoted,[13] that the $170,000,000 spent by this country for pulpwood from foreign nations goes abroad and is "lost to our national economy each year, and what we get for it is used and goes down the sewer," is typical of the type of arguments used. Mr. Garvan, however, goes one better and says that, it this $170,000,000 had been kept in America, it would have revolved ten times and so we really lose $1,700,000,000 on this trade! He forgets that goods and services can only be repaid in goods or services; that capital loans and gold can only postpone the day of settlement. This seems to be the basic lesson that most of the economic nationalists have still to learn. It is true, however, that some state that we must stop exporting as well as reduce our imports. That is the logical position to take. In the case of pulpwood from Canada a high enough tariff would stimulate production in this country; it might make slash pine forests in the South profitable. But at the same time it would result in a decline of our exports of coal, petroleum, fruits, vegetables, and cotton. Newsprint in America would be higher in price while in Canada prices of fruits, vegetables, and other imports from America would be increased in price. If we increased our pulpwood industry by $50,000,000, we would decrease our export industries by approximately the same amount, and both Canada and America would be poorer in real goods by the refusal to exchange. And it is also clear that the rate of turnover has nothing to do with the argument; if the $50,000,000 increase in the pulp in-

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[12] Samuel Crowther, *A Primer*. Chemical Foundation, Inc., N.Y. 1934. p. 5.

[13] Chapter 5, p. 120.

dustry represents a gain of $500,000,000, then the loss in production of $50,000,000 worth of exports would also be a loss of $500,000,000 because this amount would probably have the same rate of turnover per year. The only result of refusing to import pulp from Canada, would be a change in the use of our land, labor, and capital; those working to produce our exports would be unemployed, and some of our present unemployed would be used to produce pulpwood; land now being used for fruit and vegetable exports would become unprofitable, and some land in the South would be used to grow the slash pine needed for pulpwood. Because the new uses would be less advantageous, there would be a net loss in the production of wealth in both Canada and the United States.

Dairy Areas Oppose Trade Agreements

This concept of protecting the home market for the American producer has caused many farmers to believe in a high tariff policy. When the extension of the reciprocal trade agreement act was voted upon over one hundred votes were against the measure. The Progressive delegation from Wisconsin voted solidly against the extension of the act, and they were joined by the Farmer-Labor representatives from Minnesota, a few members from North and South Dakota, and representatives of protected industries in the East. It is stated that the representatives of the farmers are ready to exchange tariff privileges with the industrial East.[14] A further basic concept which causes many farmers to believe in high tariffs is the misleading simplicity of the idea that imports of farm products invariably increases the relative supply, and hence depresses the price. This concept entirely neglects the fact that, when an increase in imports is associated with an increase in exports, an increase in the home demand may also take place. A recent example of this is furnished by the imports of Canadian cheese under the reciprocal trade agreement,

[14] *Capital Times,* Madison. Feb. 15, 1937. p. 8. "Liberals Were United in Fight on Trade Pacts."

and the dairy farmers' reaction to it. Because of the important part this played in the propaganda of the opposition party in the 1936 eclection, this incident is discussed in detail.[15]

Imports of Canadian Cheese and Their Effect on Prices

Many farm leaders protested against the lower tariff rate on cheese and many farmers' organization passed resolutions condemning it. the following statement illustrates the manner in which the opposition party used this incident during the election to enlist the support of the dairy farmers:

> ". . . . Canadians have dumped 3,983,003 pounds of their cheese into the United States up to July 1st this year as a result of the New Deal Reciprocal Trade Agreements. Nor is this the end. . . . . U. S. buyers are still contracting for enormous quantities of Canadian cheese below American prices. Naturally, the offering of lower-priced Canadian cheese forces down the price of our cheese. This foreign cheese is being stored by buyers and held in reserve so they may remain out of the market for our cheese, thereby lowering the market price.
>
> "Foreign imports ruin American farmers."[16]

In an attempt to allay the fears of the farmers, Secretary Wallace and Secretary Hull made many public statements upholding the administration's policy. Secretary Wallace pointed out that the decline in price (which had taken place during the months that imports of Canadian cheese were high) was a typical seasonal decline, and no greater than the similar fluctuations which took place every year. He also pointed out that the total imports of Cheddar cheese during the four-month period were only 2.4 per cent of the total U.S. production of Cheddar cheese during the same period. During the same four months of 1936 compared with 1935, our exports to Canada increased as

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[15] The general problem of whether the prices of agricultural products produced only for home consumption can be protected by a tariff is discussed more fully in Chapter VIII.

[16] Sheboygan County Republican Committee, *A Political Eye-Opener*, Sheboygan, Wisconsin. August, 1936.

follows: rice, over 2,000,000 pounds; 49,000 more boxes of grapefruit; oranges, 341,000 boxes; eggs, 75,000 dozen; cured pork, 88,000 pounds; fruits and many other agricultural exports were also shipped in much larger quantities. Our exports of industrial goods to Canada also increased very greatly during the same period.[17]

Secretary Hull stated that the aim of the agreements was to increase employment and general prosperity. This would create a greater demand for dairy products in the industrial areas. Besides using many of the points suggested by Secretary Wallace, he also points out that production of cheese had been increasing more rapidly than consumption and that storage figures reached an abnormal height in the spring of 1936. For Canada to continue shipping cheese to the United States, when our price is 14 cents a pound, the Canadian producers must accept 9 cents a pound, and they cannot do this for very long unless costs in Canada are very much lower than in the United States; further, Canadian cheese enters Great Britain duty free and the Canadian surplus usually flows to that country. Another fact of importance is the trend of Canadian cheese production; this has been downward for the past decade. Secretary Hull also quoted figures showing that the dairy states gain greatly from the increased exports of other farm products and industrial goods.[18]

A further consideration is the fact that the price differential between milk going to cheese factories and milk going to condenseries had widened very considerably and was tending to draw more milk to the condenseries. Table 13 indicates the trend.

These differentials in prices paid to the farmers seldom exceed 10 per cent because the flow of milk may be diverted from one use to another, and a new equilibrium is

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[17] Henry A. Wallace, *The Significance of Agricultural Imports*. 74th Congress, 2nd Session, Senate Document No. 263, 1936. p. 19.

[18] Cordell Hull, Letter and memoranda inclosed to Charles Broughton, editor of the Sheboygan Press. Printed as a pamphlet, *Restoration of Foreign Trade Reflected in Improved Conditions on the Farm with Dairy Prices Up*, by C. E. Broughton, Sheboygan, Wisconsin. *Passim.*

TABLE 13

MILK PRICES RECEIVED BY PRODUCERS, BY USES IN PERCENTAGE OF AVERAGE. WISCONSIN, BY MONTHS*

Year	Percentage of Average Price Received by Producers		
	For Cheese	For Butter	By Condenseries
1935 April	93	96	108
May	94	93	104
June	95	94	102
July	96	93	100
August	96	92	98
September	98	91	98
October	99	91	99
November	100	92	99
December	100	91	100
1936 January	96	94	105
February	91	100	109
March	91	96	110
April	90	98	109
May	93	93	105
June	95	95	103

* Dept. of Agriculture and Markets, Madison, Wis. *Wisconsin Crop and Livestock Reporter.* Vol. XV, No. 7, July, 1936. p. 41.

rapidly established. Over the ten-year period from 1926 to 1936 the condensery price was 105 per cent of the average price, while milk used for cheese was only 96 per cent. From April, 1935, the condensery price declined from 108 to 98 in September, and only rose to 100 in December. During the same period the price paid for milk used for cheese rose from 93 to 100. This rapid decline in condensery prices and rise in prices paid by cheese factories probably caused more milk to be used for cheese with a corresponding increase in the amount of cheese held in storage. In 1936 the price differential returned to its more normal state, and in January milk for cheese was 96 per cent and condensery milk was 105 per cent of the average.

During February, March, and April, milk going into cheese production received a much lower relative price than milk being used for condensery products. Because the spread during these four months was so favorable to condensery products, more milk constantly flowed in that direction. This abnormally high differential in favor of the milk going to condenseries in 1936 may have been only a reaction against the abnormally low differential which prevailed during the last four months of 1935, but it reflected a relatively greater increase in the production of condensed and evaporated milk.[19] This fact, together with the growing shortage of feed due to the drought, probably led cheese buyers to anticipate an increase in the price of milk used for cheese, and a corresponding increase in the price of cheese. The fact that cheese buyers bought large quantities of cheese in Canada, even after the price had started to rise again in the fall, indicates that they anticipated a considerable rise in cheese prices. While it is impossible to prove that the factors outlined above were taken into consideration by the cheese buyers, it seems logical to assume that they were.

American Cheese Production and Price

Of all the facts presented, the most important one affecting the price of Cheddar cheese appears to be the relationship of cheese production to demand. As Secretary Hull pointed out, production had increased more rapidly than consumption with the result that storage stocks had increased. This increase in production has been taking place over a long period of years. In 1927 the average monthly production of American cheese in factories was 25,648,000 pounds; by 1931 this had increased to 31,221,000

[19] The estimated production of condensed milk in 1936 was 257,690,000 pounds compared with 225,134,000 pounds in 1935, an increase of 14.5 per cent; evaporated milk production increased from 1,838,890,000 pounds in 1935 to 2,061,386,000 pounds in 1936, an increase of 12.1 per cent. Cheese production increased 6.9 per cent in 1936 compared with 1935; creamery butter declined 1.4 per cent; and the total production of dairy products in terms of milk equivalent, increased only 1.2 per cent. From Bureau of Agricultural Economics, *Domestic Dairy Market Review*, Jan., 1936.

pounds. This represents an annual increase of 4 per cent and a total increase of 21.7 per cent for the five-year period. If we take the next five-year period, 1932 to 1936, we find the average monthly production was 30,895,000 pounds in 1932, and 41,168,000 pounds in 1936. This represents a total increase of 33⅓ per cent and an annual increase of almost 6 per cent. During this five-year period imports of cheese from Canada were less than one-quarter of 1 per cent of our home production of American cheese except in the year 1936 when the imports equalled 2.14 per cent of American production.[20] When it is realized that American production of Cheddar cheese was 44,568,000 pounds greater in 1936 than it was in 1935, and that our total imports of cheese from Canada were only 11,185,000 pounds in 1936, the comparative insignificance of these imports is understood. It can be expressed simply in this way: *the increase in American production of Cheddar cheese during 1936 was over four times as great as our total imports of cheese from Canada.*

Unless consumption continued to increase in proportion, this trend of rapidly increasing production would force prices down. It would seem, therefore, that any factors tending to reduce the production of cheese would be of much greater significance to the dairy farmers than any action which would eliminate imports. Major factors in this respect are increased exports of condensery products, increased consumption of fresh milk and butter in the industrial areas, and increased prices for other farm products which compete for acreage with milk production.

This example of cheese has been dealt with at some length because it illustrates the misleading simplicity of the idea that imports of Canadian cheese drove down the price of "American" cheese. Actually, the importation of

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[20] Based upon unpublished data prepared by Prof. Asher Hobson, University of Wisconsin; the original figures upon which these estimates are based are from Bureau of Agricultural Economics, *Dairy Situation,* current issues; Yearbook of Commerce, 1935, for data up to 1934, on imports of cheese from Canada; the figures for 1935 and 1936 from *Foreign Crops and Markets,* Dec. 28, 1936. Vol. 33, No. 26.

cheese may be, and probably is, associated with other factors which may cause a rise in cheese prices. Summarized, these factors are:

(1) An increased industrial activity, partly due to exports of manufactured goods, resulting in an increased consumers' purchasing power for cheese and other dairy products.

(2) An increase in exports of other agricultural products at higher prices, which would tend to cause a corresponding decline in the rapid increase in the production of cheese.

(3) Increased imports of selected manufactured goods and non-competing farm products, which create the exchange needed to purchase our exports of food and raw materials.

(4) Increased imports of farm products, which usually take place when home prices are high, or an increase in prices is anticipated by the buyer.

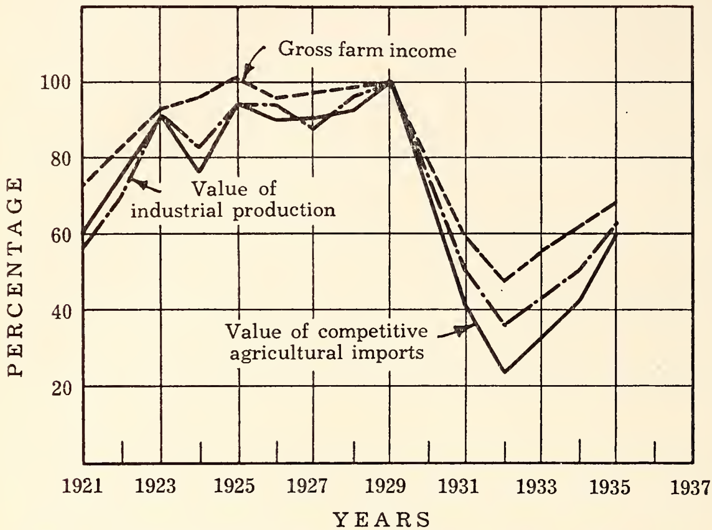
Imports of Competitive Agricultural Products Associated with High Prices and High Farm Income

That these factors apply to all competitive imports of agricultural products is indicated by charts II, III, and IV. Chart II shows that there is a very close relationship between gross farm income, the value of industrial production, and the value of competitive agricultural imports. When gross farm income and industrial production rise, competitive imports also rise; when they decline, imports decline more rapidly. Chart III shows a similar relationship between agricultural exports and competing imports; as our imports declined so did our exports. Chart IV shows the very close relationship between farm prices and the value of our competitive imports.[21]

[21] In all these charts a certain amount of correlation is due to fluctuations in the value of money; this does not affect the basic relationships because reducing all prices to gold values, or to dollars with equivalent purchasing power in terms of wholesale prices, would simply iron out some of the fluctuations in each line and not change the basic relationships.

CHART II

IMPORTS OF COMPETITIVE AGRICULTURAL PRODUCTS, VALUE OF INDUSTRIAL PRODUCTION, AND GROSS FARM INCOME, 1921-1935* (1929 = 100)



* This chart taken from U.S.D.A. "The Significance of Agricultural Imports," Senate Document No. 263, 74th Congress, 2nd Session, p. 17.

In the light of these facts regarding the imports of competitive agricultural products, the home market argument appears to be fallacious because it only considers the statement that increased imports of competitive products will, *pari passu,* lower prices. It is the simplicity of of this statement that appeals to the farmer; actually large imports of competitive farm products are associated with high prices, high gross farm income, and a large volume of agricultural exports.

Protection of American Labor

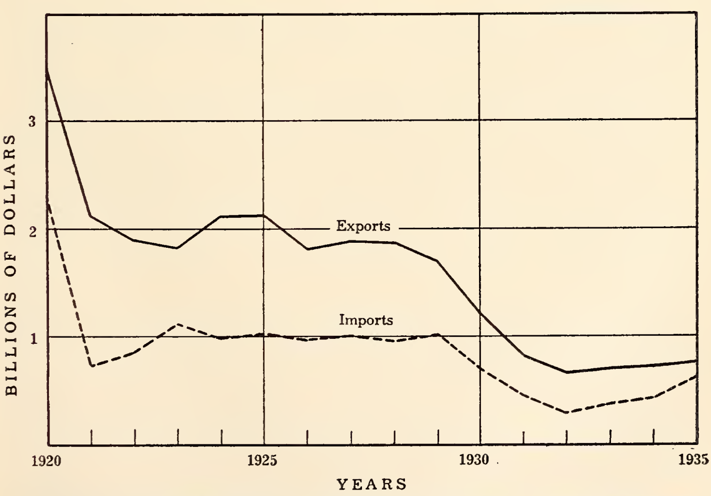
Another argument, closely related to the home market argument, is the statement that we must keep the opportunity to work open to American labor. This is usually

associated with the demand that the American working man be protected from the pauper labor of foreign nations. A typical example of the reasoning employed is given by Wisconsin State Senator C. E. Dempsey in an editorial in his *Farm Economics,* "A Plain Paper for Dirt Farmers by a Plain Dirt Farmer." He writes,

> "Now, I will show you how every person who wanted work could be given work on constructive work—making or producing something—not 'made work.' Under my plan, for many years to come, there should not be any unemployment in this country. . . . .
>
> "If it requires 100,000 farms and 115 factories to produce only 23 per cent of our sugar, just imagine the farms and farm labor the factories, etc., it would require to produce 6,000,000 tons of sugar every year.
>
> "Only ten miles from my home, at Menominee Falls, there is a sugar beet factory that used to operate six or seven months of the year. It has been idle for 15 years because

CHART III

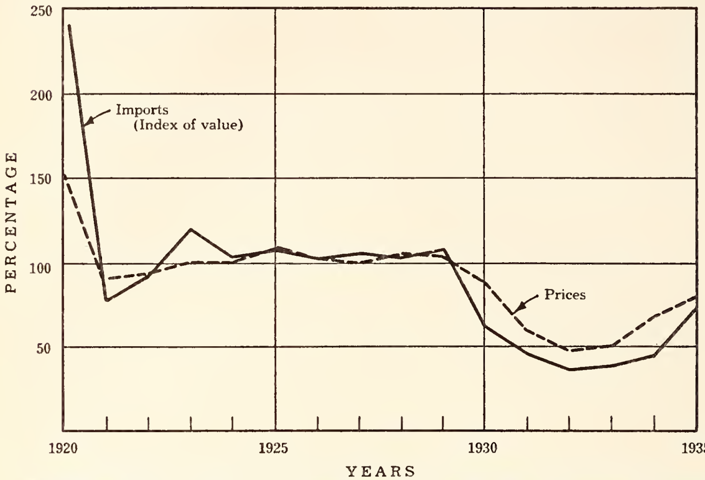
Value of Agricultural Exports and Competitive Agricultural Imports. U.S.A. 1920-35*



* U.S.D.A. "The Significance of Agricultural Imports." Senate Document No. 263. This chart based on table 9, p.22.

CHART IV

COMPETITIVE AGRICULTURAL IMPORTS AND FARM PRICES. U.S.A. 1920-35*
(1921-30 = 100)



* Adopted from U.S.D.A. "Significance of Agricultural Imports. Senate Document No. 263, p. 15.

> we cannot grow beets in competition with the cane and cheap labor of the tropics.
>
> "Raising sugar beets requires a lot of labor. I have a letter from the Sugar Beet Association in which the association estimates that it would require over 3,000,000 more laborers in field and factory to produce all the sugar we need in the United States. We could easily produce every pound of sugar needed in the United States if we had a tariff of three cents per pound on sugar. Of course this would make sugar more expensive, perhaps seven cents per pound." [22]

Senator Dempsey then argues that it would be better to pay the difference and put men to work, rather than have them loafing on taxpayers' money. He states that

[22] *Dempsey's Farm Economics*. Hartland, Wisconsin, September, 1936. Francis P. Garvan also states, ". . . . Our own country can develop its own sugar and give employment to 600,000 men of our unemployed and hundreds of thousands of our unemployed acres." *Birth Control of New American Industries*, Chemical Foundation, N.Y. p. 13. It is because this idea appears so simple and is so widespread that it is dealt with in detail here.

United States Senators Duffey and LaFollette, Secretary Wallace, and all our big statesmen, will object to his plan because it would "make sugar too expensive and wreck our foreign trade with Cuba." And,

> "That is propaganda furnished to them by Wall Street. Our trade with these countries, outside of the buying of sugar which belongs to our sugar corporations, is negligible." [23]

Will the Production of Beet Sugar Absorb the Unemployed?

This sounds a very simple and easy method of doing away with unemployment. If the three-cent increase in tariff were effective, it would reduce our imports from Cuba to zero. Our exports to Cuba of all kinds would cease, and the refunding of our loans to Cuba, and interest on them, would also cease. This would practically amount to a cancellation of Cuban indebtedness with most of the loss being borne by American investors. Whether we approve or disapprove of uncontrolled economic exploitation, and would enjoy or be hurt by "busting" the sugar trusts, is quite beside the point. For the sake of being generous let us suppose that our exports of goods to Cuba are negligible, even when triangular trade is taken into consideration, and accept Senator Dempsey's statement that our trade to Cuba (and through American exchange transfers to other countries) is negligible. What would the final results of his plan be? We would, first of all, be confiscating the property of all Americans, whether they be banks, trusts, or private individuals, who had investments in Cuba. We would also curtail shipping cargoes, and probably wreck completely the whole internal economy of Cuba. Of course one may say, "that is Cuba's concern and we should never have invested money in the country," but it will not alter the facts. From the point of view of American labor being absorbed the problem is nothing like as simple as Senator Dempsey and Mr. Garvan have made it.

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[28] *Ibid.*, p. 4.

According to Prof. L. E. Ellis,[24] the price of sugar in America differs from the world price by approximately the full amount of the duty. In 1930, when the duty was two cents per pound (96° base), it was estimated that this tariff cost the American consumer 268 million dollars above the price they would have had to pay if there had been no duty. This extra cost to the consumers of America was distributed in the following way:

To U.S. Government Customs Duties	$115,000,000
To U.S. Beet and Cane Growers and Refiners of Domestic Sugar	54,000,000
To Our Insular Growers and Manufacturers	96,000,000
Unaccounted for	3,000,000
Total	$268,000,000

To make any sort of an account it is essential that we have some postulates to go upon. Actually a three-cent increase in tariff might not bring about the large increase in home sugar production that Senator Dempsey envisages, because our insular possessions would increase production very greatly due to the increased benefits which would accrue to them. The world price would for a time be forced down to extremely low levels through the inability of Cuba to change rapidly to the production of other products, and there would inevitably follow social unrest with its probable international repercussions, and a new economic balance would slowly grow out of the chaos. In the meantime, the very low world price would keep the American price, even with a three-cent tariff added on, too low for many farmers in this country to undertake the raising of beets. A further problem arises regarding our insular possession; how much would they elect to produce at the new American price? To make the proposition reasonable we will assume that they be given a quota allowing the same production as in 1930. We will also assume, as Senator Dempsey does, that the three-cent tariff keeps out all Cuban sugar, and that the world price

[24] Lippert E. Ellis, *The Tariff on Sugar*. The Rawleigh Foundation, Freeport, Illinois. 1933. p. 152.

has not been depressed, or that it has been depressed and risen again due to reduction in world production. Besides this we must assume that American consumption remained at the 1930 level and was not decreased by the higher price, and also that chemical substitutes such as saccharine and dextrose do not increase in use and displace our home produced sugar from beets and cane grown in this country. These assumptions cannot be justified, but they are implied in the Senator's simple statement.

The balance sheet from the new estimate would show the cost of the tariff to the American consumer as being $402,000,000, and this would be distributed as follows: to our insular possessions, for the same quantity we received in 1930, $144,000,000, and to our home producers the balance of $258,000,000 on the assumption that no Cuban sugar enters and, therefore, no tariff receipts have to be deducted. Since the tariff receipts are used by the Federal Government, additional taxation would have to be levied to replace the $115,000,000 from the sugar tariff. Thus, the total cost to the American people would be $517,000,000, or roughly half a billion dollars, which is almost a quarter of a billion dollars more than the estimated cost of the 1930 sugar tariff to the consumer.

Who would be the beneficiaries of this vast subsidy? Less than 2½ per cent of our farms report sugar and syrup crops, and under 1 per cent of our total farm income comes from sugar and syrup crops. In 1930 our total consumption of sugar was 5.6 million tons, of which 2.0 million tons came from our insular possessions, and 2.5 were imported, while only 1.1 million tons were produced in the United States.[25] Under the new scheme the insular possessions would send us the same quantity, but all other imports would be stopped. This means that continental America would have to increase its production from 1.1 million tons to 3.6 (1.1 + 2.5) million tons. Roughly speaking, this means trebling our acreage, greatly increasing the number of farms producing sugar, and the percentage of total farm

[25] L. E. Ellis, *The Tariff on Sugar*. Cited. pp. 152, 156, and 157.

income from sugar. The new figures would show approximately some 5 to 7 per cent of our farms producing sugar, and 2½ to 3 per cent of our farm income would be from sugar. This small group is the group which would mainly benefit, together with one or two hundred local refineries which would be needed to manufacture the sugar.

The next question is, where would the money come from? It would be taken from the mass of the people in the form of higher prices and increased taxes. It would mean a decrease of a quarter of a billion dollars in the purchasing power of the mass of the people for goods other than sugar. Part of this purchasing power would reappear in increased payrolls of people employed in sugar production and its manufacture, providing that the increase was an absolute one and did not simply replace the production and manufacture of other goods. From an agricultural point of view, it seems probable that the beets would be grown on land which had previously grown other crops, and the farmers' total production would not undergo any real increase. The actual increase in employment would be amongst the field and factory labor. This work is seasonal, and the average working season for factories is only 70 days. The labor on the farm is usually done by imported laborers and not by the farmer and his family. The labor comprises thinning, cultivation, pulling, and topping, all of which is done by hand; it is extremely hard work and pays the lowest wage scale in the United States.

Professor Ellis writes,

> "So long as beets are grown, laborers must be imported into the community. The choice is between beets with the imported labor necessary for their production, and some other crop or livestock enterprise which can be produced by family or local labor. No satisfactory native American labor can be secured to do the hand work incident to the production of sugar beets; so, if beets are to be grown in this country those in the local areas must bring to their communities German-Russians, Poles, Japanese, or Mexicans who will do this hard hand labor." [26]

[26] L. E. Ellis, *The Tariff on Sugar*. Cited. p. 91.

It seems quite certain that an increase in the tariff rate to three cents will not raise wages so high that there will be a large amount of our unemployment absorbed. Certainly not while W.P.A. and relief is available, and if all W.P.A. or relief people were forced to go to the beet fields and work or starve, their wages would be so low and cover such a short period of the year that there would be no increase in their purchasing power which could in any way compensate for the loss in purchasing power of 250 million dollars, which the public would have to spend on sugar rather than on other goods. It seems highly probable that the increase in unemployment due to this loss would be actually greater than the increase in employment due to beet growing and sugar manufacturing. Possibly the relief or W.P.A. load might be cut down for three months, but it also might be increased by the unemployment caused through the misdirection of purchasing power to a product which we cannot efficiently produce with American labor and under American standards.

The above rather lengthy and quite simple analysis has been made to show that, even accepting all the assumptions implied by Senator Dempsey, an increased tariff on sugar would possibly create greater unemployment rather than reduce it, and, at best, it would create employment in the lowest paid industry and create unemployment in other industries paying higher wages.

Actually, under our American constitution we could not put a discriminatory quota or embargo upon the imports of sugar from our insular possessions, and an increase in the tariff to three cents would, as stated before, simply mean a large increase in sugar production by Hawaii, Porto Rico, and the Virgin Islands. American home production might increase slightly. Even without an increase in tariffs, our insular possessions have been steadily increasing their production and their relative importance as a source of supply for the American market. If any administration were so unwise as to put Senator Dempsey's suggestion into practice, it would be equivalent to taking a quarter of a billion dollars a year from the

pockets of the American people and sending it over to our insular possessions, and, of course, we would have to pay the bill for the increased cost of unemployment relief caused by the decline in our purchasing power. This does not mean that all tariffs are of no avail in stimulating employment, but that the probable results need to be very carefully considered in every individual case. If this country is fairly efficient in the production of a product, a small tariff of 10 per cent might stimulate production greatly without a very great rise in price; where this country is greatly handicapped in production, then it is more economic to import such goods and export products which we produce more efficiently.

Wages and Relative Efficiency

Regarding the protection of the American worker from the pauper labor abroad there are many points to be considered. The first factor in any discussion of relative wages is the ratio of value produced to wages paid. If a $2.00 a day man produces goods worth $4.00 and a $5.00 a day man produces goods worth $8.00 the higher paid worker is also the cheaper worker to hire. The American worker has demonstrated his extreme efficiency and, although European labor can learn to be just as expert in the use of machinery, their efficiency appears to be directly proportionate to their wages, as was shown previously when discussing the minute costs of manufacturing Ford motor cars in twelve different countries. In fighting for higher wages and an end to sweatshop conditions, labor unions in America have used this same argument and stated that better conditions and higher pay are more than offset by greater efficiency and increased productivity. Not only that, but they have produced an abundance of figures to prove that this is true for America, and there seems no reason why it should not also be true for the world as a whole as is indicated by the Ford records. The beet sugar industry pays the lowest of all wages, and yet it is one of the most highly protected. The automobile factories pay

the highest wages and they have a very low tariff rate. Efficiency in productivity, not tariffs, decide wage levels in the majority of cases. As a matter of fact, we find many cases where the "pauper labor" of foreign countries has had to be "protected" from the highly paid labor of industrial nations which, because of their greater efficiency and use of machinery, were able to produce and undersell the products previously made by less efficient means. Most handicraft work, except in the case of the arts, has been displaced by higher paid labor using machines unless it has been protected. The most outstanding example, however, is the way the efficient, machine-using American farmer, with a high standard of living, threatened the very foundations of European society by producing grain at a price which meant starvation to the European peasant who was used to a very low standard of living.

Labor, Exports, and Branch Factories Abroad

There seems to be a quite general conception that a great number of our workers are in protected industries. According to figures presented by Helen Hill,[27] out of 50 million persons gainfully employed in industry and agriculture in 1929, over half were employed in non-manufacturing work such as public utilities, banking, insurance, transportation, etc. Another large group is engaged in manufacturing industries which, because of the bulkiness of their products, are not susceptible to foreign competition. Only one-seventh could be said to be subject to competition from foreign products. The other six-sevenths, together with the farmers, bear the cost of the tariffs.

Compared with this fact must also be considered our dependency upon exports for certain types of industrial products as well as farm products. For instance, 40 per cent of our typewriters, 25 per cent of our agricultural machinery, 21 per cent of our locomotives, and 14 per cent of our passenger automobiles are sent abroad, and these

[27] Helen Hill, *Foreign Trade and the Worker's Job*. World Peace Foundation, 80 West 40th Street, N.Y. p. 21.

five industries alone employ over half a million workers with a payroll of $850,000,000.[28] To stimulate employment in these industries, imports must be accepted to pay for them. One direct result of our high tariff policy of the past has been the erection of branch factories abroad to avoid the high retaliatory tariffs placed on American goods. Events in Canada furnish a good example of this. Mr. Bennett was elected as Premier in July, 1930, and by September had raised the Canadian tariffs to the highest point in the history of the nation; this was an enforced retaliation against the United States Smoot-Hawley tariff of June of the same year. In the ten months following August, 1930, seventy-four American firms opened branches in Canada. This means that America exports blue prints and capital only; the payrolls go to foreign workers. In many cases this has resulted in an over-expansion of productive facilities beyond world needs and part of the home plant has had to be closed down. When only profits, or interest, from branch plants is returned to this country, it means that the purchasing power of the American nation is reduced by the amount of the pay rolls transferred, and American productivity is reduced. Also the business of transportation loses. These branch factories are artificially stimulated by the tariff, and a reduction of tariffs may make them inefficient or wasteful. It is always very difficult to repair the mistakes made in directing production to inefficient channels by tariffs or subsidies. In some cases, of course, branch factories are established to avoid freight charges and under such circumstances are sound, and the movement will continue.

A further result of the Smoot-Hawley tariff act was the development of the Empire trade agreements. As a result of these measures, American exports to Canada dropped from 961.5 million dollars in 1929 to 670.7 million dollars in 1930; to 403.7 million dollars in 1931; and to 210.5 million dollars in 1933. This decline is partly caused by the decline of prices, and is in keeping with the decline of all world

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[28] *Ibid.*, p. 22.

trade, but imports from the United States have been forming a declining percentage of Canadian total imports as table 8 shows.

Table 8 also shows that the United Kingdom was shipping a continually increasing proportion of Canadian imports while our trade was declining. To suggest that both

TABLE 8

CANADIAN IMPORTS FROM THE UNITED KINGDOM AND THE UNITED STATES AS A PERCENTAGE OF TOTAL IMPORTS, 1929 TO 1934*

Year	Percentage of Canadian Imports from	
	United Kingdom	United States
1929	15.3	68.6
1930	15.2	67.9
1931	16.5	64.5
1932	18.4	60.8
1933	21.3	57.2
1934	24.2	54.9

* *The Canada Year Book,* Ottawa, Ontario. 1934-35. p. 559.

the branch factory movement and decline in trade is a result of the advance of chemical science, as do the proponents of economic nationalism, seems highly questionable in the light of these facts; it is even pernicious when the suggestion is used as a basis for persuading the American working man that he needs to be "protected" from cheap foreign labor, when actually he needs to be "protected" by keeping tariffs low, thus avoiding too high retail prices, the accumulation of excess profits, and the loss of his job due, in part at least, to a collapse of our export trade.

Protection of Infant Industries

The earliest argument used by the advocates of protection was the infant industry argument, which was so ably developed by List as a basis of a complete economic philosophy. It is one of the soundest of all arguments for protection, and is being used today, together with all the

newer theories based on the development of science. The modern economic nationalists, however, seem to forget completely that List advocated a protective tariff only for the period when an agricultural nation was changing to an industrial nation; as soon as the industrial nation was developed, List advocated a return to free trade principles. List and the early protectionists were undoubtedly correct, and, during the period when the United States was building up its industry as new ventures competing with the old established industries of England, some protection was needed. This protection allowed profits to be high enough to attract the needed capital to this country, and helped to offset the advantages enjoyed by a highly industrialized nation like England. Conditions today are different; we have ample capital, as our great lending orgy during the nineteen twenties demonstrated; in the matter of efficiency, we have demonstrated that, in mass production methods, America has been the leader of the world. As new efficient techniques of production are developed, as new articles of commerce are produced to satisfy human wants, America can produce them at a profit provided there is no natural disadvantage or unfair dumping of goods by a foreign competitor. Where goods cannot be advantageously produced here, we increase our wealth in terms of goods by producing those things in the production of which we are efficient, and exchanging them for those goods which cannot be produced here without prices being unduly high. In the case of new industries being threatened by foreign competitors dumping goods here below costs, a special tax must be applied when the price quoted here is lower than the price quoted on the home market. In the past this was not easy to do, but, with modern price quotations on a world wide basis, it is now much simpler to detect dumping and check it. There are no firms which can continue selling below cost on their home market, as well as on the foreign market, for any great period of time.

Mr. Garvan would have us raise the tariff on sugar, and put a special tariff on pulpwood and paper imports in order to build up an American pulp industry which, according to

his own figures, can produce much more cheaply than the Canadian producers. He would tax all gasoline except that using a mixture of 10 per cent ethyl alcohol in order to stimulate the use and manufacture of alcohol; he would raise tariffs on every new product which might be made here even though it would cost twice as much.

The argument for protection of infant industries is even used as a basis for the erection of barriers between individual states of the Union, in order to stimulate industry and agriculture and give employment to state capital and labor. Why not carry it further and let each county or township become self-contained as far as possible? Adam Smith remarked that grapes could be grown in Scotland; Wisconsin could produce all its own motor cars; it could produce peaches and other fruits by using hot houses. The only answer to the proponents of these measures is that every barrier erected against exchange prevents the development of wealth originating from specialization, division of labor, and full use of natural advantages. In the early history of man, we find a family economy with each family unit self-contained; the family grows and becomes a clan with some development of specialized labor by families within it; later clans or tribes develop a silent trade, where each leaves gifts to be exchanged for return gifts placed within the "mark." There were no contacts, but each tribe gained in wealth and in the diversity of the goods it was able to enjoy. We find gift exchange becoming more widespread and some article, a shell, or an ox, or precious metal being used to evaluate the equality of the gifts; then the gift exchange turns to barter, and finally a money basis of exchange develops. Seafaring people living on the coasts become carriers and exchange the special products of countries and tribes by transporting them and making a profit on the transaction. The end of this evolutionary process, which has brought with it a continually rising standard of living, is not a return to self-containment, but a development of planned world trade. No polemics, no invective, and no amount of insinuating statements about persons or foreign nations should help

the Chemical Industry in general and Mr. Garvan[29] in particular, to persuade the American nation to adopt a policy of economic nationalism as its objective.

Defense in Time of War

Any discussion of tariffs always leads to a discussion of of defense in case of war, and the need for protection to stimulate the industries vital for our self-defense. It is perfectly true that industries which are vital to our defense should be protected. To import all our explosives, our aeroplanes and guns, would be ridiculous, but, like the last argument, the whole question revolves about the decision as to what industries and goods are vital. The nation needs sugar, so does the army and navy, should we therefore produce it all? The people need dyes for their clothes, so does the army and navy, should we produce all of them? It is a matter of degree of protection, and no representatives of any industry should be allowed to dictate the extent to which their industry must be protected because of its value in times of war. It is quite true that we were dependent upon German dyes at the beginning of the "Great War," and our color schemes certainly suffered, but, in spite of that, it seems probable that the navy would have fought just as valiently in white trousers as navy blue. But, "From the gall nuts was derived gallic acid which was the foundation for gallocyanine blue. And thus was our navy clothed." [30] The real danger was a lack of medicinal and a few essential industrial chemicals. These essentials it may be wise for America to produce, or at least be sure that several sources of supply are open. The question then arises as to whether it would not be much better for the nation if we were to have a government subsidy for the chemical factories producing the essentials, rather than a high tariff which makes the price of all drugs and chemicals high, and places an added bur-

[29] Francis P. Garvan, *The Birth Control of New American Industries.* The Deserted Village No. 4. Chemical Foundation, Inc., N.Y. 1934. *Passim.*

[30] Samuel Crowther, *America Self-Contained.* Cited. p. 78.

den upon all the poor of this nation who need to buy, and who, in many cases, cannot do so because of high prices.

There is, however, a much stronger argument in favor of international trade as being a help rather than a drawback in time of war. When war does break out, the productive man power of a nation is taken from the factories and fields, and a sudden drop in productive ability takes place; where a nation has many trade connections and the ships needed to carry merchandise, the decrease in national productivity can be made up by importations from abroad. During the last great war, Germany was the most self-contained of all the nations, and yet she suffered most from lack of proteins and fats. On Navy day, a high navy official was heard to say that America's greatest need today, from a military point of view, was an efficient fleet of auxiliary merchant vessels for use in time of war. Must we build such a fleet and keep it idle and rusting at the wharves, or should we use it to carry our goods in times of peace and make both this country and others richer by the exchange? What is going to be the cost of all these measures to create a self-contained America? No complete estimate has ever been made. Before turning to an analysis of the probable cost of such a program to the American farmer, we must first consider the group of arguments in favor of protection, which have been classified as theoretical rather than international or national.

CHAPTER VII

THE ARGUMENTS CONTINUED

Theoretical Conceptions

The Basic Assumptions Underlying Free-Trade Doctrine No Longer Hold

The theoretical basis for a free-trade doctrine was first presented, in a complete and generally accepted form, by John Stuart Mill, when his *Principles of Political Economy* was first published in 1848. What Mill did for the nineteenth century in England, Professor Taussig has done for the twentieth century in America. From the abstract point of view, when considering only the maximum productivity of wealth and disregarding national defense, dumping of goods which prevents the development of home industries, and unorthodox currency controls, then free trade is logically the only system which can be accepted as sound. However, one does not live in an economic world abstracted from these other considerations. National defense in times of war must be considered; one must admit that a dominant commercial and industrial nation will sometimes attempt to prevent the normal growth of efficient home industries in other countries, by price cutting and dumping; one must admit also that the gold standard of international exchange has broken down, and national currency control becomes the rule rather than the rare exception. Then too, as List stated, there are some things more important than mere wealth. A united nation with a diversified development is one of them. As previously stated, the problem today

is not economic nationalism versus free trade but self-containment versus rigidly limited and controlled international trade. It is mainly a problem of evaluating the possible advantages of a protective measure, against the probable cost of this protection to the public. This attitude is based primarily on an acceptance of the free trade argument that division of labor, and the exchange of goods between areas of natural advantages, leads to greater wealth; and that this wealth is divided between the nations in varying ratios which depend upon relative elasticity of demand, relative efficiency in production, and the possibility of obtaining supplies from a third source. None doubt these basic concepts; even communism and socialism have accepted them as part of the old theory applicable to a new society. In the light of this widespread acceptance of these theoretical arguments, it is interesting to meet with a new heterodoxy in the field of theory.

Mr. Crowther has summarized these arguments for us,

> "Let us resort to simple arithmetic and state a few more elementary principles:
>
> "1. If we exchange one hour of American labor for one hour of foreign labor, we have done a useful thing only if the hour of foreign labor could not have been performed by an American.
>
> "2. If we exchange one hour of American labor for an hour of foreign labor that might have been performed by an American, we have done a harmful thing, for we have withdrawn the opportunity to create wealth in this country.
>
> "3. If we exchange one hour of American labor for two or more hours of foreign labor that might have been performed by an American, we are not driving a good bargain but, on the contrary, we are doing a harmful thing, in that we are postponing the opportunity to create wealth in this country until such time as our wage rates can be lowered to the foreign level. And, in the meantime, in depriving the American workman of his opportunity, we also deprive both industry and agriculture of his spending power. That spending power, expressed as it is in houses, transport, food, clothing and a thousand other directions, means more to us than getting cheap foreign goods.
>
> "4. If any integral part of our economy depends upon goods imported from abroad, then our whole economy can exist only at the pleasure of the foreign producers.

> "5. If any integral part of our economy depends upon exporting goods, then equally our whole economy hangs upon the will of the foreign buyers." [1]

Besides these elementary propositions, there are certain results from our experiences of the past which, Mr. Peek and Mr. Crowther believe, entirely refute the validity of all past theoretical bases for upholding international trade. In many respects, this attack on the validity of generally accepted tenets is more worthy of a detailed consideration than the elementary principles just enumerated because the critics present considerable statistical material to prove their conclusions, and also make suggestions which are applicable to our future course whether it be toward a self-contained economy or toward a revived international trade.

Mr. Crowther again has obligingly summarized these criticisms for us,

> "But foreign trade as it now is and as it has been for several centuries is so far from what it seems to be that the self-evident truths are not truths at all but untruths, and the whole current reasoning on foreign trade falls because it starts from premises that are false. To be specific:
>
> "1. We have not gained wealth by exporting goods and making loans. On the contrary, as a result of our foreign traffic through the thirty-eight years ending with December 31, 1933, we found ourselves with over 22 billion dollars in various kinds of foreign obligations, about three quarters of which are probably worthless. Our overseas transactions, instead of gaining wealth, have cost us about as much as a first class war.
>
> "2. If we import goods that we cannot grow or make, and export goods made or grown under American standards, there may or may not be a net gain. If we import goods we could produce or lower our standards to export, there is a net loss. *And it does not follow that if we import we shall, as of course, export.* . . . .
>
> "3. The proceeds of loans made by us to foreigners were not mostly used to buy goods here. From 1923 through 1929 —the period of our largest peace-time lending—out of over

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[1] Samuel Crowther, *A Primer*. (Comment on the Great Constructive Work of the President of the U.S. in Making Arithmetic the Basic Science of Government.) The Chemical Foundation, Inc., N.Y. 1934. p. 29.

seven billions borrowed, the foreigners used only two and a half billions to buy our goods. The balance they used to buy our securities." [2]

In another pamphlet, when discussing the validity of the classical assumption, Mr. Crowther writes,

> "If it be not true that increasing our imports by lowering tariffs will also increase our exports, then all the other postulates become academic. . . . if increasing the imports into our country will not increase the exports out of our country, then, whatever may be the effect on world trade in general and on world prosperity in general, the United States will not share in the bright fortunes." [3]
>
> "It has been solemnly averred, time and again, that our high tariffs prevent the foreigners from selling goods to us and therefore from accumulating balances here with which to buy our goods. But in the year 1934 the Federal Treasury stepped into the market . . . . and . . . . bought vast quantities of commodities on which there was no duty—gold and silver.
>
> "These purchases gave to the foreigners the ability to buy our goods. . . . . They put their money, not into goods but into the buying back of their own securities at a heavy discount, into buying the securities of American corporations located abroad and into the best American stocks and bonds." [4]

This is the final denunciation of the old classical theories. They are not true because they do not work. If we import goods, the foreigners get American dollar exchange, and buy up our securities so that they will soon be owning America. That is what they have done, and that is what they will do. It is a serious charge and worthy of consideration. Before discussing this, however, we will return to the elementary principles and take them up in order.

Exchange of Labor Hours

The first two points regarding the exchange of one hour

[2] Samuel Crowther, *A Primer.* Cited. p. 4. Italics author's.

[3] Samuel Crowther, *$970,000,000 Minus. A Second Primer.* (The Results of a Year of Simple Arithmetic). The Chemical Foundation, Inc., N.Y., 1935, p. 9.

[4] *Ibid.*, p. 17.

of American labor for one or more hours of foreign labor are simply basic misconceptions due to the omission of any concept of efficiency or natural advantage. It is doubtful if there is any labor which could not be done by an American. It might mean specialized training but could probably be achieved in the end. Take a simple example which avoids controversy over military matters, such as the importation of hand made lace from France and the exportation of typewriters to France. France and America can both produce lace and typewriters; therefore, according to Mr. Crowther, they should not exchange. But America can produce typewriters much more efficiently than can France, and France can produce lace more efficiently than America. If it took 10 hours of American labor to produce one typewriter it might take 20 hours of French labor; if it took 10 hours for skilled French fingers to make one yard of fine lace, it might take 20 hours of American labor to make the same quantity; obviously then, both America and France would gain by allowing America to use its labor to produce the typewriters, and France the lace. As Mr. Crowther suggests, one can make up an account based on hours of labor rather than prices. If an equal amount of labor is spent on typewriters and lace in both countries, for 200 hours of labor we would get the following produce under self-containment:

America	France
100 hrs. = 10 typewriters	100 hrs. = 5 typewriters
100 hrs. = 5 yards of lace	100 hrs. = 10 yards of lace

If America and France specialize the total production would be:

America	France
200 hrs. = 20 typewriters	200 hrs. = 20 yards of lace

And, if the exchange were upon an hour of labor basis, we would get a new distribution by exchange of,

America	France
10 typewriters	10 typewriters
10 yards of lace	10 yards of lace

Both countries would be the richer. It is beside the point here to go into the various ratios of exchange depending upon the elasticities of the demands and various cost factors. Professor Taussig has presented it so fully in his numerous works on this subject that any further statement would be merely repetition.[5] If America exchanges goods it has not "withdrawn the opportunity to create wealth in this country," as Mr. Crowther suggests, but has actually increased that opportunity.

In his third point, Mr. Crowther merely repeats the first two points, but brings in the wages question. If, as Mr. Crowther states, exchanging the products of American labor for the products of foreign labor (for there is no possible way of exchanging hours of labor unless embodied in some object or service) means, "we are postponing the opportunity to create wealth in this country until such time as our wage rates can be lowered to the foreign level," then England should be a nation of people eating rice and sleeping in mud huts. As pointed out in the discussion of the pauper labor argument, it is relative efficiency, not wages alone, which determine whether labor is cheap or dear. The exchange can take place between nations of different wage rates, and continue to take place to their mutual advantage, with the difference between wage rates remaining constant. Over a long period of years America has been exporting manufactured goods, and even rice, to the Orient where wages are extremely low.

Take the lace and typewriter example again, and assume that wages in America are $1.00 an hour and only 50 cents in France, then in America, when no exchange takes place, one typewriter would cost $10.00, and one yard of fine lace $20.00 in labor costs. In France typewriters would cost $10.00 each, and lace only $5.00 per yard in

[5] F. W. Taussig, *International Trade*. Macmillan Co., N.Y. 1929. This book contains an excellent analysis of the theoretical basis of free trade. For a more complete analysis see Jacob Viner, *Studies in the Theory of International Trade,* Chap. VII. Harper Bros., N.Y. 1937; and also Gottfried Von Haberler, *The Theory of International Trade,* (trans.). W. Hodge & Co., Ltd., London. 1936, particularly Part 1, B.

labor costs. If one omits all other costs and also transportation charges, we find that, owing to the efficiency of American labor in the production of typewriters, they are exceedingly cheap relative to lace, which would be very dear, and one yard of lace would be equivalent to two typewriters. In France efficient lace workers make lace relatively cheap, and the exchange would be two yards of lace to one typewriter. If one $10.00 American typewriter is sent over to France, then it could command two yards of lace worth $40.00 in America. Similarly two yards of lace worth $10.00 in France would, when sent to America, exchange for four typewriters worth $40.00 in France. Therefore America would send typewriters to France, France would send lace to America, and the final ratio of exchange would depend upon the relative demand for each article in the two nations trading. Production which was using labor more efficiently, would tend to replace the manufacture of the article which was relatively more costly to make.

Actually no case would be as simple as this because wages in different industries vary; however, the higher the wages the greater the effiiciency of the industry as a rule, and any change which results in less labor being employed in lower paid, less efficient industries, and more employed in the more efficient industries, the higher the total wage level tends to rise. On the other hand, any refusal to accept the products of other labor more efficient than ours means keeping labor producing for low wages. This would be the case if we were to refuse to accept sugar from Cuba and force American labor to produce it. If we forced the beet growers and sugar refineries to pay high wages, the price of sugar would be so high that its consumption would probably be greatly reduced.

The fourth and fifth points raised by Mr. Crowther hardly require answering. If we become dependent upon every nation that takes our exports, and also upon every nation that sends us our imports, then they are just as much dependent upon us, and we can dictate to them if they can dictate to us. To become entirely dependent upon

any one country for a vital import or export might be dangerous, and this forms an excellent reason why we should diversify our trade with many nations; the unconditional-most-favored-nation clause is one way of attaining this end. After all, the examples we have of attempts at monopoly and world domination are not very terrifying; neither the Stevenson Rubber plan nor the Brazilian Coffee monopoly can be called a dangerous success!

Imports do not Stimulate Exports (1896 to 1914 Analyzed)

Now that we have cleared away, in a rather summary manner, some of the minor theoretical differences, we must turn our attention to the real attack at the basis of orthodox theory, which is implicit in Mr. Crowther's statement, that imports do not stimulate exports nor do goods and services, even in the long run, exchange for goods and services.

Mr. Crowther's statements are based on Mr. Peek's analysis of our world trade from 1896 to 1933[6] and the results of the government's gold and silver buying policy. Mr. Peek has divided his analysis into four periods, and Mr. Crowther discusses each period in turn. The first period from July 1, 1896, to June 30, 1914, shows that America exported almost nine billion dollars worth of goods in excess of her imports. This was balanced by some six billion dollars sent abroad as remittances by immigrants, two billion dollars was accounted for by excess interest and service payments we owed the world, and the period closed with America owing the world one billion dollars. Mr. Crowther states,

> "During this whole period, the country was short of capital and the current notion was that we were progressing too fast to accumulate any capital. The fact is now revealed that because we did not know the state of our accounts, we permitted our immigrants to send out a considerable por-

[6] George N. Peek, "Letter to the President on Foreign Trade" and "Letter to the President on International Credits for Foreign Trade and Other Purposes, 1896-1933." Published in pamphlet form by the Chemical Foundation, N.Y., under the title *A Great Constructive Contribution to the First of the Sciences by the President of the United States.* 1934.

> tion of what should have been our national savings and in consequence we had to borrow from Europe what we should have been able to borrow at home.
>
> "We closed the period a billion dollars more in debt to Europe than at the beginning—that is, our people freely presented six billion dollars to the world and then were compelled to borrow a billion of it back at interest. In other words, the net result of our foreign trade was to provide foreigners with money to lend to us. If the chief function of our nation was to drudge so that other nations might spend, then we fulfilled our function." [7]

Apparently Mr. Crowther considers the value of our importations of foreign immigrants as nil. America owed no debt to the old people and the older nations who contributed their young people to build up this nation. He makes no attempt to balance America's gain in population against these remittances abroad. Prof. Warren S. Thompson estimates that between 1820 and 1929 about 30,000,000 immigrants have moved into this country and remained here.[8] Of course they sent back remittances of $50 to $100 to their parents. Many of them sent the steamship fare to their brothers, sweethearts, and friends. We must not forget that America needed these people, that steamship companies and our government openly encouraged them to come. And Mr. Crowther is so naive as to suggest that America drudged that others might spend! He neglects entirely to mention the fact that our immigrants created a great deal more wealth than they sent abroad.

1914 to 1922 Analyzed

The second period analyzed by Mr. Peek is the war period from July 1, 1914, to the end of 1922. Our exports of foods, raw materials, and war supplies increased vastly and prices rose to unprecedented heights. Our excess of exports over imports was over 21 billion dollars. This debt to us was increased by 8½ billion dollars because of service charges, accumulated interest, and principle pay-

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[7] Samuel Crowher, *A Primer*. Cited. p. 10.

[8] Warren S. Thompson, *Population Problems*. McGraw-Hill Co., Inc., 1930. p. 375.

ments. Against this debt to us, we have to deduct 3½ billion dollars spent by our tourists or sent abroad by immigrants or charitable organizations, and almost 7 billion dollars which was paid in gold or services etc. rendered to us by the world. This finally left the world owing us over 19 billion dollars, and over 10 billions of this debt represented United States war loans to foreign nations. Mr. Crowther summarizes it thus;

> "Our citizens sold abroad a vast quantity of goods at very high prices because the world was hungry for goods and our people did not have the national bookkeeping facilities to know that they were not getting paid for what they sold. Thus we began to build up-side down the castle of foreign credits that finally toppled."[9]

1923 to 1929 Analyzed

The third period represents the postwar boom from 1923 to 1929. In this seven-year period we sold and bought more goods abroad than we had during the eighteen pre-war years. We ended the period with the world owing us almost 5 billion dollars for the excess of our exports over our imports. This was increased by 10½ billion dollars representing interest on loans, new loans, and services rendered by us to the world. To offset this, we must deduct our tourist and immigrant remittance items amounting to 7 billion dollars, and payments due from us for services, interest items and gold received from abroad amounting to a total of 6 billion dollars. This left the world owing the United States an additional 2½ billion dollars. Writes Mr. Crowther,

> "Had we conducted our affairs on the simple bookkeeping system, we should have known that we were selling goods for which we were unlikely ever to receive payment. But our bankers, whose duty it was to know the state of the international accounts, either did not know or did not care. They lent money abroad in amazing sums. In this period they floated loans and sold them to the American people to the amount of $7,140,000,000. The foreigners took the exchange provided by these loans and proceeded to buy

[9] Samuel Crowther, *A Primer*. Cited. p. 12.

> our securities and build up demand bank deposits to the astounding sum of $4,568,000,000.
>
> "It is almost unbelievable that, at a time when the foreigners had so little confidence in the soundness of their own countries that they refused to invest in their own securities, we should have had their securities sold to us under the highest auspices. In effect our bankers followed the methods of the fake stock salesmen who induce prospects to trade Government bonds for mining stock. It is equally astounding that many of the bankers who, either ignorantly or maliciously, made these deals and the economists and statisticians who advised them in their making should still be in positions of trust and responsibility—and still talking about the advantages of foreign trade." [10]

It is now almost universally admitted that the foreign loan policy of this period was fundamentally unsound. But why blame foreign trade for an error made by our bankers? Would it not be more fundamental to go into the reasons why America had this vast surplus credit lying idle during a period of great business activity? One factor, of course, was the credit expansion due to the structure of our banking system; also, as we now know, costs of production were declining and prices were remaining rigid; profits and interest rates were increasing while the amount of wages paid remained fairly constant. With these high interest rates and profits, with no corresponding increase in wages and purchasing power, there was bound to develop a surplus of credit. The making of loans abroad was a national reaction against facing a decline of interest rates and profits in this country. The bankers not only did not perceive the trend of events abroad, but they did not see the trend developing in their own country, and one basic cause of the maintenance of a high price level at this time was the high protective barriers behind which all, except our exporting producers, were sheltered. This maintenance of interest rates and profits above the rate needed to stimulate new investment and productivity, with a great surplus of capital, was one reason why the "hot money," to use a newly coined phrase, was invested

[10] Samuel Crowther, *A Primer*. Cited. p. 13.

here. America was on the gold standard and foreign financiers, fearing inflation or insecure and low returns at home, bought all the securities of America that they could, and took short term loans for balances. This, however, does not explain why so many bankers here accepted doubtful foreign securities in this country. It may have been a psychological optimism that the world was "picking up," and that these securities would give high yields later.

1930 to 1933 Analyzed

The fourth period, 1930 to 1933, carries us to the depth of the depression. Foreign trade dropped to a fraction of its previous value, but, even so, we sold over 1½ billion dollars worth of goods more than we imported. During this period the payments due to us from the world for services, interest on debts as dividends, war loans, and tourist expenditures amounted to about ¼ of a billion dollars more than our payments due to the world for similar items. Thus we finally end the period with the world owing us a further 1¾ billion dollars.

When all these figures are brought together, we find that during thirty-eight years we sold goods to the amount of $121,250,000,000 and imported goods to the amount of $84,604,000,000. The balance owing to us for goods is, therefore, $36,646,000,000. To offset this our tourists spent, or our immigrants sent home, the sum of $19,429,000,000, and we received gold worth $2,095,000,000. For services and interest charges we were also in the position of creditor on the total balance so that the world owed us, as a balance on these items, the sum of $7,523,000,000. This left the world in our debt to the total amount of $22,645,000,000 by 1933. This amount is represented by our war loans of $10,304,000,000 and our investments abroad, in excess of foreigners' investments here, which amount to $12,341,000,000. Regarding this Mr. Crowther writes,

> "As things now stand, however, unless we avail ourselves of certain means to insure repayment, the chances are that the losses on our foreign trade will be all but total and that

> we shall have paid an indemnity to the world amounting to more than twenty billions of dollars for the privilege of engaging in foreign trade through a period of thirty-eight years."[11]

$22,645,000,000 Loss, and Who Paid the Bill

The reason for this loss being accepted is, suggests Mr. Crowther, the fact that the farmer, the manufacturer, the merchant and the shipper all appear to be paid. They receive their cash and, therefore, are all in favor of trade. The question then arises, who bears this loss? And Mr. Crowther answers it for us,

> "Our immigrants, out of the wages they received here, sent a large enough portion of them home to enable their relatives to buy American products. As far as the individual immigrant was concerned, his action was laudable, but as far as the nation was concerned, it meant that each year we voluntarily cancelled a portion of the world's debt to us. No one apparently lost anything. But the nation did in fact lose heavily.
>
> "It lost the opportunity to accumulate capital by savings and therefore the opportunity to devote its capital to the establishing and extending of industries and other wealth-producing facilities. Therefore, by promoting foreign consumption, we decreased our opportunities to expand domestic consumption."[12]

Apart from our debt to Europe, for the cost she bore for us in raising to young manhood and womanhood those who came over here and helped the nation to create its great wealth, the above argument is specious, entirely illogical, and misleading. Our immigrant remittances were used to "buy American products"; if they had been spent at home they would also have been used to purchase American goods. Actually by permitting foreigners to buy our products it also permitted our people to buy products which could not be economically produced here and both America and the foreign nations benefited by the exchange. American export industries, our steamship and

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[11] Samuel Crowther, *A Primer*. Cited. p. 17.

[12] *Ibid.*, p. 21.

railway lines, our mass production workers, and our farmers, all benefited by having a wider market created for their goods and services. In the same paragraph Mr. Crowther also states that we lost the opportunity to create capital. In other words, if we had not sent this money abroad, it would have been put into savings accounts here and formed a basis for an expansion of production plants in America. This argument is based upon the conception that this money would automatically have flowed into the production of capital goods, and not have accumulated in the banks as idle capital. This is good classical theory, but hardly in accordance with the facts, because we now know that the investment of capital, or the use of credit expansion, depends upon a large number of factors, and an expanding market and large demand in the form of purchasing power are very basic in creating investment optimism and the development of new plants. If this money had not been spent on consumers' goods, then purchasing power would have been lower, and all that might have happened would have been an accumulation of capital, leading to inflated stock and bond values and a lower interest rate on total paper investments. The foreign demand for our products created a wide market and helped to keep the construction of capital goods balanced with our financial capital savings; this was not perfectly achieved, but at least these exports of purchasing power probably helped in the right direction. Most of the immigrant remittances were for small amounts and, if they had not been sent abroad, it is doubtful if they would have been saved here. Savings are made mostly by the people with high incomes who cannot use it all in buying consumers' goods.[13] Our immigrants would have spent their money here, and the home demands for our consumers'

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[13]The Brookings Institution found, "The upper 10 per cent of the families, including those with incomes above $4,600, made about 86 per cent of the total savings. The second group with incomes from $3,100 to $4,600, accounted for 12 per cent of the savings. The remainder, saved by 80 per cent of the population, amounted to only 2 per cent of the total." Quoted from the digest of "America's Capacity to Produce and America's Capacity to Consume." Maurice and Laura Falk Foundation, Pittsburgh, Pa. 1934. p. 49.

goods would have been increased by about the same amount. The individual immigrant in this country would have had a few more goods, and industries producing for the home market would have expanded, but opposed to this, our exporting manufacturers and our farmers would have had to contract production or accept very low prices. To say that these goods we exported have not been paid for, or are a loss to the nation as a whole, is absurd. They were paid for just as goods consumed at home were paid for, and stimulated production just as much as they would have done had they been consumed here, with the exception that the production was probably stimulated along more efficient lines.

If America had followed a policy of self-containment and not sold her products abroad, there would have developed a great surplus of agricultural goods at home; prices would have been low, land would have lain idle, and the purchasing power of the farmers (who formed the bulk of the population before 1910) would have been so small that it is very doubtful if our rapid industrial growth could have taken place. Capital would have been slow in accumulating, and immigrants would not have been needed to build up our industries. America was in an extremely favorable situation which allowed her to maintain a tariff system and at the same time sell abroad; Europe could not compete with our machine-produced farm products, and the purchasing power in America created by these foreign sales was large enough to buy foreign goods and also stimulate the production of manufacturers in America. Without this foreign trade we would have developed slowly and been much less efficient in many phases of production.

The question of who stood the losses since the war is not quite so simple. Mr. Crowther does not again charge our immigrant remittances with this burden. Both they and our tourist expenditures are accepted as legitimate expenses of our citizens. He might have made a more spectacular case if he had continued his previous logic and claimed that all our citizens' expenditures in foreign

countries were so much wealth sent abroad and a free gift to Europe from ourselves. One may well wonder if Mr. Crowther has heard of subjective value and can understand the deep thrill and satisfaction that, for instance, Mr. Farley must have experienced when he kissed the famous Blarney Stone in Ireland; or the feeling a poor Polish laborer in Chicago had at the thoughts of his mother in Warsaw receiving his gift of fifty dollars? These are some of the intangibles we received as imports to balance our excess of exports. However that may be, during the postwar period Mr. Crowther accepts these as legitimate and concentrates all his efforts to show how our Federal Reserve System allowed our people to be fleeced. He writes,

> "The central reserve feature of the Reserve System at least doubled the credit capacity of the banks and did it practically over night. . . . . We made our war loans to Europe mainly out of this credit—and scarcely at all out of savings. The two billions of gold that came to us from abroad provided us with the power to create at least twenty billions of additional credit. . . .
>
> "When the war was over. . . . . We had billions in idle credit seeking a profit. It seemed good business to lend money abroad at high interest rates in order to give to the foreign nations money with which they could buy our food and goods at high prices. . . . . Foreign bonds were soon in every bank in the country, both as investments and as collateral for loans. . . . . Thus finally we reached the end of our credit spree and dropped from exhaustion. . . . . It is impossible at this time to state what proportion of frozen bank or frozen personal assets was or is represented by foreign bonds. It is impossible to state at this time how many people in this country are destitute because they placed their savings in foreign bonds." [14]

Thus, shooting our banking system "through and through with worthless foreign securities,"

> "must have been a major, perhaps the most powerful, single force in bringing about deflation with its gruesome wake of broken prices and broken payrolls." [15]

[14] Samuel Crowther, *A Primer*. Cited. p. 23.

[15] *Ibid.*, p. 23.

This is the answer to the question of who stood our losses on the unpaid balance of the goods we shipped. Our war loans loss is being paid for by the people as a whole through increased taxation. "Such are the people who innocently paid for our season of tinsel glory." [16]

This is a quite logical analysis. Expanded credit facilities under the Federal Reserve System were equivalent to a cheap money policy, similar to that which had been demanded by agriculture ever since the days of Shay's rebellion. The bankers, however, obtained the legislation and went ahead making loans. It was a rather scandalous business, particularly the acceptance of all kinds of foreign securities with what seems to have been little or no investigation as to their soundness. The losses borne by these people were losses due, not to international trade, but to international speculation, and are no different from the losses the same people took on American stocks and bonds which collapsed in value. To blame international trade for a collapse of an international speculative boom is erroneous, as is also the idea that control of all imports and erection of high tariffs would cure it. The collapse of our banking system showed the basic need of a centralized national bank, with rigid control over the private member banks, and with the power to control the expansion of credit so that it is balanced with business needs and activities. Also, this debacle of the past clearly illustrates the need of some central national bank, through which all foreign transactions are passed and recorded. This bank again should be national and have the power to restrict withdrawals or influxes of foreign short-time credits, gold, securities, or silver when these may endanger the stability of the home credit system. The new Federal Reserve powers allow the credit of the nation to be controlled, and the indications at present are that these powers will be used widely. Already the reserve requirements have been raised to offset any undue credit expansion due to a minor boom of rising stock prices, rising wages, and rising

[16] Samuel Crowther, *A Primer*. Cited. p. 24.

prices. If this control can be ably managed, then one factor in the business cycle is eliminated. A bank of international exchange functioning in a similar manner would help to control a second factor. In this demand for such a bank, Mr. Crowther and Mr. Peek are perfectly sound in their analysis and conclusions, but when they use the immorality of financial speculation as a basis for eliminating trade in goods, they go beyond the realm of sound logic. We can have speculation controlled, and an increase in trade in goods, but, under such a system, our imports will have to be increased if we are to collect our interest and principle payments from abroad. There is no other way, and it makes no difference whether the goods are imported and consumed here, or purchased and consumed abroad by our tourists and brought home as memories. Any restriction of imports is simply a refusal to allow foreigners to repay us in the only way they can. They certainly will not repay us by handing over their industries, and we cannot transport them here even if we did own their securities. Without imports we cannot even receive payment for interest due to us on our investments abroad. To confiscate their holdings of American securities, as both Mr. Crowther and Mr. Peek suggest, would be simply to create more friction, invite disastrous retaliation, and strangle what trade we have left. Since this is the avowed object of both Mr. Peek and Mr. Crowther, then their suggestion of confiscation is in keeping with their policy of building an America self-contained.

Both Mr. Peek and Mr. Crowther exaggerate the importance of our international lending spree as a cause of our depression. The census of opinion today is that the basic cause was an ever widening gap between production and consumption due to the maintenance of profits and interest rates by a rigid price system; associated with this was a considerable growth of nationalism through which we lost a large part of our foreign trade. Neither economic nationalism nor free trade, nor regulated international trade will be a panacea to cure this basic flaw in our capitalistic system.

The United States Gold and Silver Buying Policy of 1934

The final conclusive claim that an increase in imports will not result in an increase in exports is also based upon Mr. Peek's balance sheet for 1934. This balance shows that we exported more goods than we received that year by $478,000,000. Our tourists and immigrants spent or sent abroad $352,000,000 so that only $126,000,000 remained owing to us on these two items. However, the world owed us, as the balance due on interest rates and services, the sum of $255,000,000. On our total balance for the year, the world owed us $381,000,000 for the above items. But in 1934 America bought gold, silver, and her own currency circulating abroad, to the amount of $1,351,000,000. This left us owing the world, for the year's transactions, $970,000,000. As expressed by Mr. Crowther,

> "Our transactions in the year 1934 provided foreigners with an unprecedented amount of exchange—in a year unmarked by loans. Therefore they had an almost unprecedented opportunity to buy our goods, ... They provided an absolutely ideal setting for the testing of the theory or notion that the foreigners would buy our goods if only they had the money. . . . . If the foreigners had run true to supposed form, they would have spent the windfall right in our markets. . . . .
>
> "They did nothing of the kind. They put their money not into goods but into buying back their own securities at a heavy discount, into buying the securities of American corporations located abroad and into the best American stocks and bonds." [17]

The final results of this policy are,

> "We, as citizens, must pay interest on the bonds, the foreigners collect interest and dividends on the securities they bought, while the Treasury finds the gold it bought so valuable that it is putting it underground like a corpse." [18]

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[17] Samuel Crowther, *A Second Primer*. Cited. pp. 17 and 18.

[18] *Ibid.*, p. 26. This statement is deliberately misleading and obscures the fact that America holds a much larger amount of foreign securities and short term credits than the foreign nations hold in America. Our actual

Not only that, but more important still,

> "England, France, or Germany, on the information we now have as to their several holdings, could each precipitate a panic in our security markets whenever they were so minded. We have thus already lost control of our money economy. . . . The total of the holdings is so large that even small fluctuations will destroy the financial meaning of trade balances. This wholly cuts the ground from under the hypothesis that importing goods will cause the export of goods." [19]

This sounds plausible, but when interest payments on these foreign investments are due they will have to be sent either as goods or gold. Gold would not last very long, and finally goods would have to be exported unless the foreigners came over here and consumed their interest in this country! This is, of course, eliminating this one factor of interest payments from all others. If we did not export goods at once, American dollars would fall in value in relationship to the foreign currency, because dollar exchange would pile up in the foreign nations with no demand for it. As the dollar fell, exports would increase because our prices in terms of foreign currency would fall. The whole exchange mechanism can be confused and the issues obscured by financial transactions between nations, but this does not invalidate the final conclusion that in the end balances are paid in gold, services, or goods. Mr. Crowther himself stated that our immigrant

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position at the end of 1935 was as follows: apart from war loans, American holdings of foreign securities and short term credits, together with our direct investments abroad totaled $13,450,000,000. For similar items held by foreign nations in America, the United States owed the world $6,200,000,000. This leaves the United States a creditor nation to the amount of $7,250,000,000.

A further indication of the net creditor position of the United States is shown by the fact that in 1935 our total receipts from foreign bonds held by Americans, income from direct investments abroad, and earnings on American short-term investments abroad, amounted to $521,000,000. Payments by America to foreign nations for similar items were only $146,000,000. These figures also tend to disprove the contention of Mr. Crowther that most of our investments abroad are "worthless." (Department of Commerce figures from "Statement by Ernest G. Draper, Acting Secretary of Commerce, Relative to the Creditor-Debtor Position of the United States." Washington, Aug. 13, 1936. p. 2.

[19] Samuel Crowther, *A Second Primer*. Cited. pp. 31 and 32.

remittances paid for our excess exports before the war, and it would be just as true to say that our surplus exports paid our immigrant remittances.

There is one other basic fallacy in Mr. Crowther's reasoning. He treats silver, gold, and currency imports, as imports of goods. This is adding more confusion to the already tangled concepts of international exchange, and obscures the fundamental difference between buying gold and silver[20] held by bankers and buying goods manufactured by the people. If we buy goods from another nation we stimulate its productivity, and the wages going to the producers cannot be expended on the goods they have produced because those have been sent out of the country; there is, therefore, created an unsatisfied foreign purchasing power, and at the same time the necessary American exchange is available to pay for any of our goods which may be bought to satisfy that purchasing power expressed as demand. Even if goods from a third nation are bought by the nation which first exported to us, our exports may flow to that third nation in response to the purchasing power created in it. In the case of gold, silver, currency and securities, we may buy large quantities and not create any purchasing power at all as far as a demand for goods is concerned. If we buy gold from an English banker, he will use the American exchange to buy short term credit or securities which will pay interest; he has no use whatever for either our farm products or industrial products to store in his portfolio, and we have not created any purchasing power that is in excess of the goods available.

Mr. Crowther in his pamphlet states,

> "The idea that regimentation of domestic industry and agriculture is sequential to a shrinking of foreign trade is a product, not of the facts, but of the economic planners who, ignorant of the advances of science, refuse to believe that

[20] When silver purchases are made purely for commercial purposes, and on a free silver market, silver may well be classified with other goods; in this case the purchases were monetary in nature and made by the government of the United States; this seems to justify the classification of silver with gold in this instance.

this world orders itself better than man has ever been able to order it." [21]

But in his book he writes,

"But if we do not export, the commerce of the United States will have to stop with the home market." [22]

He suggests that we should import about 1½ billion dollars worth of raw materials which we cannot produce here, and restrict all other imports. The imports would be raw silk, coffee, tea, tropical fruits, antiques, jewels, tin and a few other metals, and, for the time being, sugar and rubber.[23] New chemical uses of surplus farm commodities would develop, and the South would probably have to diversify its farming and produce less cotton. No great hardship would be felt because home prices would be kept above world levels. But Mr. Crowther offers no figures to show how this would all come about, nor does he estimate how long it would take. Before embarking upon the program of an America self-contained it would be well to count the costs. An attempt to do this from the standpoint of the farmer will be made in the next two chapters.

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[21] Samuel Crowther, *A Primer*. Cited. p. 5.

[22] Samuel Crowther, *America Self-Contained*. p. 247.

[23] *Ibid.*, p. 242.

CHAPTER VIII

WHAT ECONOMIC NATIONALISM MEANS TO THE FARMER

Restricting Imports Means Curtailing Farm Production

Changes in tariff policy may affect the farmer in two ways; as a producer and as a consumer. This chapter considers only the possible effects of economic nationalism upon the farmer as a producer. His position as a consumer is discussed in chapter IX.

The possibility of our dumping farm surpluses abroad, while maintaining a high price at home, may be dismissed as a measure which would not be tolerated by other nations any more than it is tolerated by the United States of America. Nor is it possible, as we have seen, for unequal goods and service accounts to be balanced in any large measure, either by gold shipments or the transfer of securities. These can be used only as a means of balancing our accounts over a short period of time. With these facts in mind, Mr. Peek's figures for the seven-year period from 1923 to 1929 are again considered in order to estimate the probable effect upon our exports of his proposal that we limit our imports to one billion dollars a year.

Our imports cost $28,735,000,000 during this seven-year period. If only one billion a year had been allowed to come in our total imports would have been $7,000,000,000, and the world would have been left owing us $21,735,000,000 if our exports, remittances, and service accounts had remained the same. This balance due to us could not be settled by importations of gold because in December, 1929, the total gold reserves of the entire world, apart from the

United States, amounted only to $6,502,000,000.[1] Nor could it have been met by accepting the securities of foreign nations because, with this restriction on imports, there would be no way of accepting any interest payments on them. As it was, we accepted $2,572,000,000 in foreign securities, some of which are now in default. It might be possible to increase our services to the world and increase our tourist expenses and remittances while accepting less services from the world, but these changes could not make up the difference. In the end the sum of $21,735,000,000 would have had to be balanced largely by a reduction in our exports. Actually we exported goods to the value of $33,711,000,000 during this period and, in order to achieve a balance under Mr. Peek's plan, these exports would have been reduced to approximately twelve billions of dollars, (33.7 billions less 21.7 billions). In simple terms, restriction of imports to one billion a year during this period would probably have reduced our exports to one-third of what they actually were; on a yearly average basis this amounts to a drop from 4.8 billions yearly to 1.6 billions. This loss would bear more heavily upon agricultural exports than upon industrial exports because our imports would consist largely of rubber, sugar, minerals, tea, coffee, and other raw materials, and the countries exporting these products require manufactured goods in exchange rather than food stuffs or other raw materials. Also, since our imports of all manufactured goods from Europe would be eliminated, the European nations would not be able to purchase our farm products without draining off their gold reserves or increasing their indebtedness. In the end, Europe would be forced to place an embargo, or very limited quota, on farm products from this country. For agriculture, a policy restricting imports to one billion dollars a year would mean practically the elimination of our exports of farm products. A very small amount might continue to flow abroad, but this would be so minute a quantity as to be almost negligible. Apart

[1] League of Nations. *World Economic Survey*. 1934-35. p. 250.

from vague hopes that new uses may be found for farm products, the economic nationalists fail to suggest what we should do to remedy this situation; they fail to appreciate its significance to American life as a whole. They oppose the curtailment of production in agriculture, and denounce the crop restriction program of the present government. The only suggestion they make is that the new technical advances of chemistry should be able to absorb all our farm surpluses and convert them into alcohol and various fibre products. Until this has been demonstrated, we must doubt its economic feasibility. And the demonstration must show that during the process farm prices will not be driven down to a new low record, and that the prices of the goods the farmer buys will not be unduly enhanced. Until this is done, we must ask ourselves what it would mean to the farmer if his export market were destroyed.

Can Producers of Farm Products Consumed at Home be Protected by a High Tariff Policy?

Certain products of the farm are almost entirely consumed at home with exports forming only a fraction of the total production; dairy products of all kinds, beef, potatoes, and wool are typical of this class. Other crops are dependent upon export outlets for a large part of their production; for the period 1920 to 1930, 22.4 per cent of our wheat was exported, 53.5 per cent of our cotton, 33.2 per cent of our tobacco, 21.9 per cent of our rice, and about 28 per cent of our lard. The first group of products is supposed to benefit from high tariffs which enables the home price to be maintained above the world price, while the group of exported commodities can not benefit from a high tariff because they have to be sold on the world market. If a policy of high tariffs is adopted, can we limit the bad effects on agriculture to those areas which are producing mainly for exports? Or will the pressure from surpluses of some products, which can no longer be exported, force down the prices of all farm products and

cause a general agricultural depression? The opposition party in its 1936 campaign attempted to attract the votes of all dairy farmers by promising them protection from all competing imports. The basic question is, can the prices for dairy products, beef, and wool be maintained by a protective policy? The high tariffs on other imports would prevent other nations from purchasing our cotton, tobacco, wheat, and lard; the prices of these products would be depressed and surpluses would accumulate. Can agricultural products be divided into two categories, with one group having a high price while the other suffers from a low price? Can we protect the dairy industry of our nation at the expense of the cotton producing South? For a short period this might be done, but over a longer period there is a tendency for prices of agricultural products to rise and fall together. There is every reason to believe that it would be well-nigh impossible to maintain the price of milk and not the price of cotton, for instance, over any considerable period of time. There seems to be fairly conclusive proof that the prices paid to the farmers for milk at a given time cannot be maintained by any foreign policy which will result in lowering the prices of other farm products, since milk production can be easily increased by more intensive feeding and by raising more heifer calves. The price of dairy products may be maintained at a higher level over a longer period of time because of the ease with which the early surpluses may be stored and the ability of the manufacturers to divert the flow of milk into the production of various products. As in most price phenomena there are many factors to be considered, and in the case of dairy products, the factors affecting the home market are very complex and numerous. Industrial pay rolls and general business conditions seem to be of paramount importance in determining the price of butter and the amount consumed. Another factor is the price of oleomargarine and, even more important, the changing diet of the people. Professors Commons, Hibbard, and Morton make the following statement regarding the conclusion arrived at by Professor Renne that

the tariffs on dairy products are partially effective in maintaining American prices above the world prices.

> "The conclustion that the dairy farmer receives some benefits from the tariff should not blind him to the fact that so long as the major farm products are in competition with the world, there is a constant tendency to undermine the small benefits he now receives. Nor are these apparent benefits compensatory for the loss suffered by him with all classes of society by the breakdown of world trade and the consequent internal economic disorganization. It affords little consolation to the domestic dairy industry to know that its present low and unremunerative prices are still a bit higher than those existing elsewhere. The farmer should, however, realize that he is now paying for the folly of that economic philosophy which believed in creating practically insurmountable trade barriers between those who buy and sell. To the extent that these trade barriers have destroyed the foreign markets for grain and meat, they have given the dairy farmer new competitors. To the extent that they have helped to destroy the purchasing power of the grain and cotton farmers, and have created unemployment in our export industries, they have undermined agriculture as a whole, and with it the economic prosperity of the entire nation."[2]

Prices of Dairy Products Related to Prices Paid for Exported Commodities

Even though Professor Renne shows that the tariff on dairy products does help to maintain these prices above world prices, he admits that estimates of benefits gained by the farmer through this price differential method represent the maximum benefit possible. He also shows that we are virtually on a self-contained basis for butter, but that some imports come in during the winter months when home production is low, and that we export some butter during the summer when the production is high and the prices are low. The result is that at times of shortage New York prices tend to rise above world prices, and the tariff is a factor in this increase. When we are exporting,

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[2] Ronald R. Renne. *The Tariff on Dairy Products*. Madison, Wis. The Tariff Research Committee, Madison, Wis. 1933. Editors' Introduction, p. 21.

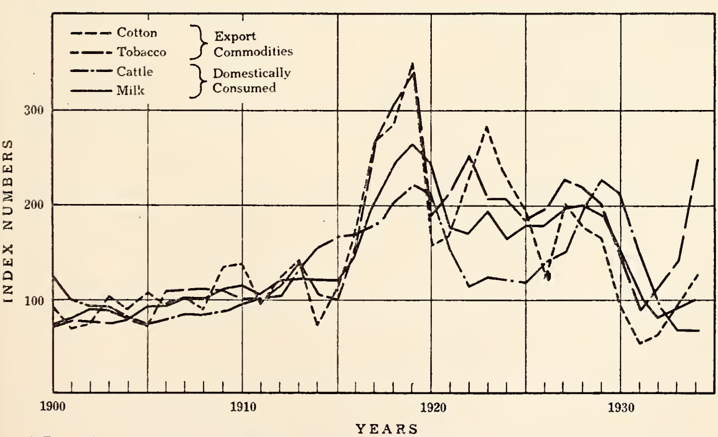
the New York and London prices tend to become equal and the tariff is not effective. He also points out the probable effect of high prices upon production when he states,

> "Moreover, the recent tendency of western and southern farmers to shift into dairying indicates that we may expect to continue virtually on a domestic basis in butter. If for any considerable period our supplies cannot meet the demand and our prices rise to a level above world prices by the amount of duty, home production would undoubtedly increase promptly and our prices would decline."[3]

It is this latter conclusion which seems all important in a consideration of the effect of the tariff in raising and maintaining the prices of one group of farm products above the level of prices received for other products. Chart V gives a graphic representation of the fluctuation in farm prices of four agricultural products over a period of 34 years. Cattle and milk were selected as typical com-

CHART V

INDEX NUMBERS OF FARM PRICES OF AGRICULTURAL PRODUCTS. U.S.A. 1900 TO 1934* (1900-14 = 100)



* Based on Table 6, Appendix A.

[3] Ronald R. Renne. *The Tariff on Dairy Products.* Cited. p. 67.

modities largely consumed at home, and cotton and tobacco represent commodities which depend upon the export market. The actual prices have been reduced to index numbers with the fifteen-year period, 1900 to 1914, taken as a base. The very close relationship between the prices of home consumed commodies and the exported commodities can be seen. Cotton prices received by the share croppers in the South, and milk prices paid to the dairy farmers of Wisconsin are not separate and independent, but are closely related phenomena. Any policy which would result in depressing cotton prices over a long period of time, even though it claimed to be protecting the dairy farmer, would result in depressing milk prices in the long run.

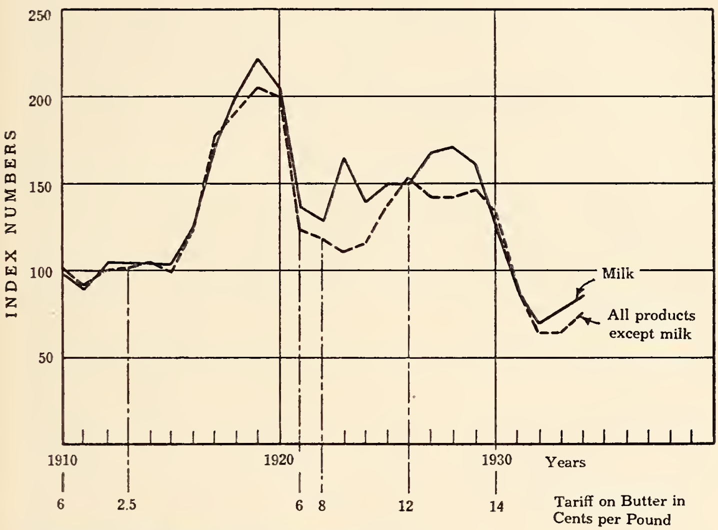
It is the failure of the very large and powerful group of dairy farmers to realize this fact that seems to have led them to link up with the high tariff groups and vote for higher industrial tariffs in order to obtain higher tariffs on dairy products. The effect of higher tariffs in reducing exports, both of industrial goods and farm products, has been passed over, and they have failed to consider the effect, on milk prices, of increased competition from the farmers who are no longer able to sell their products abroad at a profit.

In the case of butter we have a good example of what actually happens when tariff rates are raised. The price of Wisconsin milk and the price of butter in New York fluctuate together, and the prices of milk sold for various uses (except for fluid use in cities) seldom vary greatly. In Wisconsin milk has grown in importance as a source of income to the farmers. In 1911, 31 per cent of the gross farm income came from milk, and by 1931 this had increased to over 51 per cent. Any policy, therefore, affecting the price of milk is of vital interest to the farmers of the state. The question of the relationship of milk prices to the prices of other agricultural commodities is of vital importance to the whole financial well-being of everyone in the state. Chart VI graphically presents the relationships between the price the Wisconsin farmer received for

his milk, the price of all other farm products sold by Wisconsin farmers, and various tariff rates upon imports of butter. The prices are expressed as index numbers with

CHART VI

INDEX NUMBERS OF WISCONSIN FARM PRICES FOR MILK AND ALL PRODUCTS EXCEPT MILK; WITH TARIFF RATES ON BUTTER 1910-34* (1910-14 = 100)



* Based on figures in Table 4, Appendix A.

the average of prices for 1910 to 1914 taken as 100. This shows clearly that from 1910 to 1921 the price of all other farm products and the price of milk fluctuated together and had only a small spread at the peak of the war price boom. When the tariff on butter was raised to six cents in 1921, the spread widened, and in 1922 when the tariff was raised to eight cents, the difference between the two groups increased greatly; after 1923, they gradually drew closer together again, until in 1926 they were almost at parity. In that year the tariff was raised to twelve cents, and the price of milk and price level of all other products

again became separated, but again four years later, in 1930, returned to parity. This same year saw the tariff raised still higher, but this time it was not effective in preventing the decline of milk prices which was almost as rapid as the decline of the price level of all other products. It is impossible to estimate how much of this differential between milk prices and the price level of other farm products, during these two periods, was due to the tariff or how much was due to other factors affecting the home demand. During the 1921 to 1923 period, when the spread widened rapidly, the price of cotton had risen very greatly, due in part to the poor yield and partial crop failure of 1921. However, in 1922 and on to 1925 the income from cotton production was high. This would tend to increase the consumption of dairy products in the South. Also, from 1921 to 1923 industrial payrolls increased very greatly, and this increase led to a larger demand for butter and fluid milk in the cities. During the 1926 to 1929 period, the income from cotton sales remained fairly steady. In spite of this the price of milk started to decline in 1928 although industrial pay rolls and the price index of all other farm products rose until 1929. During this period, however, milk production for the United States increased from 88,375 million pounds in 1925 to 98,782 million pounds in 1929, or 11.8 per cent. The number of cows milked increased 2.4 per cent or just over half a million head. It is interesting to note that while Wisconsin milk production increased only 10 per cent, the South Central region increased 35.3 per cent. During this same period (1925-29) the number of cows milked dropped 2.2 per cent in Wisconsin, but increased 15.9 per cent in the South Central region. [4] These figures seem to show conclusively that any benefits from the tariff on dairy products are, at least in part, of a temporary nature, and by stimulating increased production in other areas, forces are set in motion which tend to counteract the initial benefits received by milk producers. A further

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[4] *Wisconsin Agriculture,* Bulletin 150. Wisconsin Department of Agriculture and Markets. Madison, Wis. p. 92.

important factor affecting the price of butter is the use of substitutes such as oleomargarine. In the United States the consumption of oleomargarine varies directly with the price of butter, and when butter prices rise unduly the manufacture and consumption of oleo increases very greatly; also the consumption of substitutes tends to remain high even after butter prices have dropped. Apart from any of the other considerations mentioned above, it would appear that, in order to protect itself from stimulating the production and use of substitutes, the dairy industry should favor a lower tariff in order to prevent domestic prices from rising too high in times of shortage in domestic production. To demand higher tariffs on dairy products alone does not appear to be to the best interests of the industry.

If a corresponding increase in tariffs on manufactured goods takes place, the resulting decline in our exports may cause such large surpluses to accumulate that the whole price structure of farm products may be depressed, and when this takes place, the dairy farmer suffers almost equally with the producers of export commodities. If this is true, then the dairy farmer should support legislation which attempts to increase world prices and exports of farm products. It does not mean that all protection should be done away with, because a sound argument for some protection of dairy products lies in the fact that New Zealand summer butter can be shipped here in the winter when our production costs are highest. It does indicate that we must treat the agriculture of the nation as a whole, rather than in isolated segments, when estimating the cost of self-containment to the farmer.

The Dependence of Agriculture Upon Foreign Markets

To agriculture as a whole, exports at present appear to be essential in spite of the rapid growth of our large city population. In the year July, 1909, to June, 1910, we exported agricultural products (excluding forest products) valued at $871,000,000. This figure increased steadily

during the pre-war period, and in the year 1913-14 agricultural exports amounted to $1,114,000,000. During the war, prices rose rapidly, and by the year 1919 the value of our farm exports was doubled, reaching the sum of $2,280,000,000. During the post-war boom the value of these exports increased greatly, reaching a peak of $3,862,000,000 in 1919-20. By 1922 the value of these exports had declined to $1,916,000,000, and from that time on, until 1929, our annual exports of farm products varied between 1.8 and 2.2 billions of dollars.

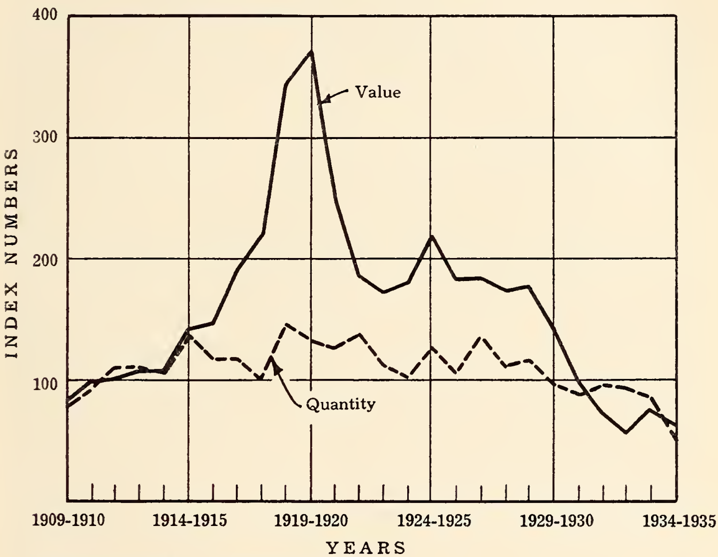
More significant, however, are the figures for quantities of exports, and the percentage of our gross farm income derived from exports. These have not fluctuated as widely as have the values of our agricultural exports over the past 25 years. The index of the quantity of agricultural exports, constructed by the Bureau of Agricultural Economics, shows that during the war years the weighted average of forty-four of the most important agricultural exports actually declined during 1915, 1916, and 1917. From 1917 the quantity of exports rose rapidly and remained relatively high until 1921. Chart VII shows the relative fluctuations of values and quantities of agricultural products over the twenty-five-year period, 1910 to 1935.

Table 1, Appendix A, gives the value of agricultural exports expressed as a percentage of gross income from farm production for each year from 1910 to 1935. These figures show that during 1911, 1912, 1913, and 1914 our exports appear quite stable and equalled 15 to 16 per cent of our gross farm income. In 1915 the ratio rose to almost 20 per cent but declined to 16 and 15 per cent in 1917 and 1918, respectively. This would indicate that our prosperous agriculture of the war period was not due to an excessive increase in the proportion of our farm income coming from the sale of farm products abroad. This is confirmed by the figures for the quantity of agricultural exports reproduced on chart VII. During the post-war period the ratio of agricultural exports to gross farm income rose rapidly to 29 per cent in 1921; in 1922 it had

dropped to 19 per cent, and from 1923 to 1931 it was stabilized at a percentage varying from 15 to 16.5 per cent, with the exception of 1925 when the ratio was 19 per cent. In order to establish a normal ratio, the average over the

CHART VII

INDEX NUMBERS OF VALUE AND QUANTITY OF AGRICULTURAL EXPORTS. U.S.A. 1910-35* (1909-10 TO 1913-14 = 100)



* Based on Table 5, Appendix A.

pre-war period 1911 to 1914, and post-war period 1923 to 1930, has been calculated; this amounts to 16.3 per cent over the twelve years included.

When considering the ratio of the value of agricultural exports to gross farm income, two factors must be kept in mind: the fact that gross farm income includes the value of products consumed and used on the farm,[5] makes the

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[5] An average of 15.36 per cent of the gross farm income was in the form of commodities consumed on the farm each year between 1924 and 1935. (Calculated from U.S.D.A. estimates for cash income and farm value of products retained on the farm. "Income from Farm Production in the United States in 1935," p. 5, table 3.)

gross farm income considerably larger than the actual cash income, and tends to minimize the dependence of agriculture upon sales abroad. If cash income is, on the average, only 85 per cent of the estimated gross farm income, then the normal ratio of 10.3 per cent becomes 19 per cent when the value of agricultural exports are expressed as a percentage of cash farm income. Calculations of the ratio of agricultural exports to receipts from sales of farm products gave a normal figure of 18.7 per cent. It would, therefore, appear quite reasonable to state that the value of agricultural exports is normally about 18 to 19 per cent of our cash farm income (or receipts from sales of farm products).

The second factor to be kept in mind is the difference between the prices used in estimating gross farm income and the value of our agricultural exports. Gross income is based upon farm prices while exports are measured in terms of export prices, probably at the port. This means that the value of exports contains the price paid the farmer, middlemen's charges, and freight to the port of shipment. The actual farm value of our agricultural exports would be considerably smaller than the figure at present used. The Bureau of Agricultural Economics (U.S.D.A.) is at present compiling a series which will give the farm value of agricultural exports. From a few preliminary estimates it appears that this new series may be anywhere from 30 to 50 per cent smaller than the present series of the value of agricultural exports. When this factor is considered, it appears incorrect to state that our agriculture is dependent upon foreign markets for 18 to 19 per cent of its cash income; the measure of the amount of this dependence must be the ratio of the *farm* value of exports to cash farm income, or to total estimated receipts from sales. This figure, as has been indicated above, may be anywhere from 30 to 50 per cent lower than the above ratio, and exports, at farm prices, would appear to form from 9 to 13 per cent of our cash farm income.

As we have seen, there is a basic interdependence in all agricultural production and a tendency for lower prices

for one commodity to cause an increase in the production of those commodities which have maintained higher prices. For this reason, the general figure of 9 to 13 per cent is significant because it approximately represents the reduction in production which all our farmers would have to bear in the end. If cotton and wheat acreages were reduced by law, and no clause inserted preventing the use of the land for pasture or fodder crops, then our milk production would probably increase greatly, and dairy products would share the general pressure of the surpluses. The production of milk would also have to be curtailed, and that curtailment would be spread throughout our dairy states as well as in the cotton, corn, and wheat areas; it would be manifestly unfair to penalize the producers of cotton and wheat alone. If a foreign policy were adopted which would discourage exports of special crops, we would have to permit the areas producing them to change to the production of commodities for the home market, and spread the curtailment of production over the areas which are at present producing only for the home market. The dairy farmers, in particular, need to realize this, and consider what may actually result if their demands for high tariff protection for dairy products leads them to link up with the industrial high protection group, in complete disregard of the welfare of the farmers producing for foreign markets.

Certain agricultural products are much more dependent upon export outlets than the general figure of 9 to 13 per cent indicates. Table 9 gives the main products which are dependent upon export outlets for a large prpoportion of of the total production.

In the case of these products, curtailment of production to home requirements means either a great reduction in acreage or changing over to the production of commodities consumed at home. The corn and wheat areas may find it fairly easy to shift to the production of other crops, but in the cotton growing South this change would be slow to take place because the social system and cultivation techniques have become closely linked to cotton growing

TABLE 9

RATIO OF EXPORTS TO PRODUCTION U.S.A. FARM PRODUCTS 1929 AND 1934*

Product	Percentage of Production Exported	
	1929	1934
Cotton	56.8	64.9
Tobacco (leaf)	41.2	34.3
Lard	33.3	23.4†
Wheat	17.9	5.1
Rice	32.6	10.2
Apples	15.5	11.6
Pears	22.3	19.3
Dried fruits	46.0	39.7‡
Canned fruits	22.8	21.1‡

* Frances Bowes Sayre, *America Must Act*. World Peace Foundation, N.Y. 1936. p. 8.
† Data for 1932.
‡ Data for 1933.

over a long period of time. Many authorities claim that the South must change over to diversified agriculture whether cotton exports continue or not, but admit that the process will take time. High tariffs on farm products consumed at home may tend to speed up the change to diversified farming in the South; this, however, does not solve the problem, but only spreads the poverty over a wider area by increasing the quantity of home consumed products to the point where prices are depressed. Diversification does not imply the complete elimination of a large part of the cotton acreage, but suggests a sounder system of farm management with rotations of crops, proper fertilization, and a more rational use of the land. It is expected that cotton yields per acre would be increased. Basic factors affecting this development are owner-tenant relationships, rental contracts, and the education of the poorer classes.

Acreage Reductions Necessary if Exports Are Curtailed

When discussing the costs of economic nationalism, Secretary of Agriculture Henry A. Wallace writes,

> "Under nationalism we must be prepared to make permanent the retirement of from 40 to 100 million acres of crop land. Forty million if we take good land; 100 million if we take out the worst. Furthermore, if we continue year after year with only 25 or 30 million acres of cotton in the South instead of 40 to 45 million acres, it may be necessary after a time to shift part of the southern population and there is a question as to just what kind of activity these southern farm laborers should engage in. We will find exactly the same dilemma, although not on quite such a great scale, in the corn and wheat belts.
>
> "If we finally go all the way toward nationalism, it may be necessary to have compulsory control of marketing, licensing of plowed land, and have a surplus quota for every farmer for every product for each month of the year. We may have to have government control of all surpluses, and a far greater degree of public ownership than we have now." [6]
>
> "Nevertheless, the national path remains wide upon to us. We can travel it if we want to. We can get along on sugar raised at home, even though the cost may be twice that it otherwise would be. We can completely substitute the use of rayon for silk, we can raise our own tea and get along without coffee. We can even raise our own rubber for perhaps 30 cents a pound. If the national will is completely bent in that direction, we can arrive together at a self-contained life, but the process of transition to this self-contained Utopia is certain to be extremely difficult. It may require a great amount of government aid to take care of people formerly engaged in the import and export business. It will mean the shifting of millions of people from the farms of the South. But these are minor considerations, in comparison with the extraordinary complete control of all the agencies of public opinion which is generally necessary to keep the national will at a tensity necessary to carry through a program of isolated prosperity." [7]

This does not seem to be an exaggeration. Control would very probably have to extend beyond the control

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[6] Henry A. Wallace, *America Must Choose*. Pamphlet published jointly by Foreign Policy Assn., N.Y., and World Peace Foundation, Boston. 1934. p. 10.

[7] *Ibid.*, p. 17 .

of agriculture only. And yet the nationalists are one and all opposed to production curtailment of any kind! Their only solution is a dual price system which is an impossibility in the light of political reality. Of course they state that science has new uses for farm products, but the prices must be very low; do they really imagine that we can allow our agriculture to continue in a depression extending into the future for an unknown length of time, while our chemical industries find new and economically feasible uses for our farm products? And, even if we accepted this as the price of self-containment, could we develop a prosperous industrial and commerce life with this basic maladjustment in our national economic life? It would seem very questionable.

The very general figures on acreage reduction presented by Secretary Wallace have been expanded by Assistant Secretary of State Francis B. Sayre:

> "In the field of agriculture, if we would eliminate our foreign markets, speaking in round numbers we would have to retire about 8,900,000 acres of wheat land, about 22,800,000 acres of cotton land, about 665,000 acres of tobacco land, about 9,150,000 acres of corn land needed for raising hogs, and over 7,000,000 acres of land needed for feeding horses to work these lands. In other words, we would have to retire over 40 million acres of average farm land and let it go back to weeds or pasture land. This land today supports a farm population of some 3,200,000 people. What would be done with these human beings? Are they to become human weeds?"[8]

Professors A. A. Dowell and O. B. Jesness have presented an excellent analysis of the acreage reduction which would be needed if we were to eliminate our exports of agricultural products. Table 10 presents these estimates in their final form.

The total net exports of twelve crops, pork, lard, and feed, when expressed as a percentage of total acreage in crops in the U. S. A., average 16.4 per cent over the 11-year period, 1920 to 1930. The value of agricultural ex-

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[8] F. B. Sayre, *America Must Act.* World Peace Foundation, Boston. 1936. p. 21.

TABLE 10

AVERAGE ACREAGE REQUIRED TO PRODUCE DIRECT AND INDIRECT EXPORTS OF FARM PRODUCTS. U.S.A. 1920 TO 1930*

Eleven-year Average of Acreage Required for	Thousand of Acres
1. Total crop production	365,036
2. Net exports of 12 major crops	39,949
3. Net exports of pork and lard	9,511
4. Feed of horses and mules used in producing exports	10,442
5. Total export requirements, items 2, 3, 4	59,902

* Austin A. Dowell and Oscar B. Jesness, *The American Farmer and the Export Market.* University of Minnesota Press. 1934. p. 84.

ports expressed as a percentage of gross farm income over the same 11 years averages 18.8 per cent. Since Professors Dowell and Jesness have not included all products in their analysis (fruits, vegetables, seed used for the production of export crops, and other smaller items are omitted) it is reasonable to suppose that their estimate is lower than the total acreage used by the nation as a whole to produce all its exports over the period 1920 to 1930. However, this period contains three abnormally high years for our agricultural exports because in 1920, 1921, and 1922 the index of quantity of agricultural exports was 134, 127, and 137 respectively, and this was due in large measure to the postwar boom. How much these two factors help to counter-balance each other it is difficult to say. The fact that soil fertility varies so greatly makes any estimate of the acreage which might have to be retired under a regime of nationalism almost valueless unless one specifies the grade of land to be taken out of cultivation. From every economic consideration it would appear that restriction of production should, first of all, eliminate all the sub-marginal land now in use, and leave all the best land to be used as fully as is economically pos-

sible; any other policy would lead to the perpetuation of inefficiency and higher prices to the consumer. The shortcomings of this suggestion is that sub-marginal land adds little to commercial production. It has been estimated that, in 1929, 28.0 per cent of our farms produced only 3.4 per cent of the value of agricultural products sold; and 48.0 per cent of our farms produced only 10.8 per cent of the value of agricultural products sold. To reduce our production 10 to 11 per cent by eliminating all the poorer farms would, therefore, mean eliminating almost three million of our six million farms. This would mean moving a large number of people off the land, and would present a problem that it is not easy to solve; over a million of the farm families would be cotton growers of the South.[9]

The 60 million acres providing our exports would then be doubled or possibly trebled and this land would have to be taken out of production, at least temporarily, unless the prices were to be allowed to collapse due to the pressure of vast surpluses. The production of those agricultural commodities which are being imported, but which might be grown here at much higher prices, would absorb only a small amount of our surplus acreage and, no matter how much production was shifted from one crop to another, the nation would finally have to face the alternative of controlled crop curtailment or a collapse of prices which would involve all agricultural products whether they are at present on an export basis or not. This is the choice the farmer would have to face if economic nationalism became the policy of the nation.

The Effect on the South

Because of the dependence of the cotton growing South upon exports, this would mean human suffering and poverty that is hard to imagine. Out of the chaos of the Civil War the South had to build a new order upon the ruins of the old. The share cropper system developed with

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[9] Figures quoted from Eugene Merritt, *Economic Extension Program for Farm Young People*. Paper given before Nat'l Outlook Conf., Washington, D.C., Nov. 2, 1934. U.S.D.A. pp. 2 and 3.

its well-known hardships and low standards of living. Has the nation the right to inflict a mortal blow to the whole economic stability and well-being of one section of its population when the basis of such an action is the very doubtful hypothesis that economic nationalism is the best road to prosperity that this nation can take? Even more serious is the question, can this nation take such a step without the chaos and resulting reaction (involving population shifts and overwhelming relief loads) causing a more or less complete breakdown of our internal economy?

In a recent pamphlet, by Mr. Peter Molyneaux, dealing with economic nationalism and the South it is pointed out that from 1920 to 1930 a steady impoverishment of the farm population has taken place. Year by year conditions have become worse and worse. Education, health, and morality are all in a deplorable condition today, and these are closely linked to the standard of living of the people. The author sees economic nationalism not as something new or of the future but as an actuality of the past, and, as we have seen, an actuality resulting from pressure by groups who thought they had something to gain for themselves and had no concept of the devastating results of their policies in the South. He states,

> "It is certain that if the policy of economic nationalism is persisted in by the United States, if the American people attempt to adjust themselves to their changed international status by adopting policies even more narrowly nationalistic, then the economic and social problems of the South will become almost hopeless. This is so true, it seems to me, that no national policy, no matter how beneficial it may be for even a majority of the people of a country can be squared with any humane conception of civilization, if it has consequences for one section of that country as inexorably destructive of the well-being of that section as the policy of economic nationalism must be of the well-being of the people of the South."[10]

This destruction of the well-being of the South would not, and could not, be confined to the South. It would

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[10] Peter Molyneaux, *What Economic Nationalism Means to the South.* World Peace Foundation. N.Y. 1935. p. 28.

spread like a blight over the whole of the agricultural population through low prices and mounting surpluses. This would lead to a pressure of unemployed farmers seeking work in our cities, ever mounting relief rolls, and lower wages for workers. Only a few stockholders in the protected industries might reap a short-lived prosperity.

CHAPTER IX

THE COST OF TARIFFS TO THE CONSUMER

The Urban Consumer and Acreage Restriction

The previous chapter has outlined the probable costs of economic nationalism to the farmer in terms of its effect upon agricultural production. The prices of all agricultural products appear to be closely related, over a long period of time, because of the comparative ease with which production can be shifted from one product to another. It is apparent, therefore, that no single group of products, or area of production, can enjoy high prices due to protective tariffs, while other products and areas of production suffer from low prices due to the surpluses in excess of the home demand. When such a differential in prices occurs, the product enjoying the higher price is produced in greater quantities, and, in one to four years time, the price tends to approach the general price level of the other farm products. In order to make agricultural tariffs effective over a long period of time, it would appear necessary to protect all farm products, and, at the same time, restrict the production of these commodities to such quantities as will supply only the home market at a given price level. For the United States this would mean a very large reduction in acreage, and an almost insoluble problem of either moving a large part of our present farm population or returning to a subsistence agriculture which produced only a small commercial surplus.

In spite of this basic unity underlying agricultural production as a whole, certain congressmen still persist in hoping that northwestern agriculture, particularly dairying, can be set off by itself on a nationalistic basis. Their

views were expressed when they opposed the extension of the administration's reciprocal trade agreements program, and in the debates they stated that,

> "A continuation of the treaty program would be 'selling the farmer down the river'."
>
> "Some safeguards for northwest agriculture must be evolved."
>
> "They delegate powers to the President that he should not have."
>
> "The agreements tend to lower tariffs rather than increase them on things we need protection on."
>
> "The treaties are ruining our northwest farming in order to help eastern industrialists. The effect is to stimualte the sales of foreign products on American markets to the disadvantage of our own." [1]

They overlook entirely the fact that the treaties also expand the foreign market for American farm products; nor do they explain how the northwest farmer can be "safeguarded" from increased competitive production at home by the farmers who normally would produce for the export market. It is this inability to see the logical and almost inevitable outcome of a continued policy of extreme protectionism, on the part of many representatives and senators, that justifies the present delegation of powers to the executive head. Until it is appreciated that a high tariff policy restricts the export of agricultural products and thus causes increased production of those commodities consumed at home, this delegation of power would seem advisable quite apart from the fact that this delegation of power is also needed to simplify and expedite our dealing with other nations.

In considering the cost of the tariff to the consumer there are two separate questions to be considered; the first is, what would be the cost of economic nationalism, to the consumer of agricultural products, if such a policy were adopted? And the second problem is, what have our present, or past, tariffs cost the consumers as a whole? Neither of these questions can be answered in a satisfac-

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[1] *The Capital Times,* Madison, Wisconsin. January 25, 1937. p. 2, col. 7.

tory manner because we do not have the information necessary to make accurate estimates.

If we assume that the United States was forced into a regime of economic nationalism, either through the refusal of other nations to accept our goods, or our refusal to accept imports from foreign nations, it appears perfectly logical to expect that large surpluses of cotton, wheat, tobacco, corn, and hogs would accumulate. Prices of all farm products would probably decline rapidly, and there would be an immediate outcry for some form of production control or subsidy to the farmer. Since there would probably be a surplus accumulate, even at ruinously low prices, it seems highly probably that some form of production control would be embarked upon in order to reduce the output to home consumption demands. If this policy were adopted, the administration would immediately be faced with the problem of deciding what the home consumption demands would be.

The difficulty of estimating the amount of land to be retired, from the point of view of the consumers' needs, can be illustrated from the estimated acreages needed to produce various diets for the nation as a whole. The Federal Bureau of Home Economics has made up four scientifically balanced diets which it has called:

1. A restricted diet for emergency use. This is a subsistence diet and consists chiefly of cereals with small amounts of fresh fruits, vegetables, and dairy products.
2. An adequate diet at a minimum cost. This contains less cereals, more fruits and vegetables, and some cheap cuts of meat.
3. An adequate diet at moderate cost. This contains all the food needed for reasonably attractive and satisfying meals.
4. A liberal diet. This is designed for a high standard of living and contains very liberal amounts of lean meat, eggs, milk, vegetables, and fruits.

From these four diets estimates have been made of the number of average American farm acres which would be required to produce them for the American people.

Diet No. 1 would require 180 million acres
Diet No. 2 would require 226 million acres
Diet No. 3 would require 280 million acres
Diet No. 4 would require 335 million acres.

These estimates do not include the acreage used for non-food crops consumed at home, nor acreage used for producing exports.[2] The consumers would naturally want the most adequate diet, but it appears quite certain that they could not purchase it at high prices, because during the 1925-29 period of prosperity, when food prices were relatively low, the national consumption was only slightly above the No. 3 diet. This brings out very clearly the fact that under any scheme of production control some authority must decide upon the amount and quality of food the city workers will be allowed to eat. If prices are raised too high the diet will be less adequate. The lower the prices the more eggs, meat, vegetables, milk, and fruit will be consumed.

If we asume that the aim would be to keep the farmers income at the same level, that it was before entering a regime of economic nationalism, then prices would have to be higher per unit to compensate for the smaller number of units produced to meet only the home demand. This increase in unit cost would then be passed on to the consumer, who would either buy less of other goods or reduce the quality of his diet. In the last analysis the urban consumers would have to pay. If we assume that the price of food were kept constant, then the farmer would receive a smaller income because he would produce less units at the same price. With less income the farmer would be able to purchase less goods and unemployment or lower wages for industrial workers would result until a new adjustment were made.

If direct subsidies were paid to the farmer, and the prices of his products allowed to remain very low, taxation, in one form or another, would have to be greatly in-

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[2] Description of diets and acreage estimates taken from Division of Information, A.A.A., U.S.D.A. *Agriculture's Interest in America's World Trade*. Washington, 1935. pp. 2 and 3.

creased. The diet of most consumers might be improved, unless the increase in taxation reduced their purchasing power in an amount corresponding to the decline in the price of foodstuffs. The effects of the tax levy would largely depend upon its incidence.

While no definite conclusions can be drawn from this brief analysis, the relationship between the diet of the people and agricultural production is revealed; if production is reduced, either the farmer or the city consumers must bear the cost; if the farmer accepts the loss, then the decrease in his purchasing power would have repercussions upon the city worker; if the farmer's income is maintained, then the urban population will have to accept a reduced diet or curtail other purchases.

The Consumer Bears the Costs of the Tariff. Some Estimates of This Cost

The second problem, that of estimating the costs of the tariff to the consumer, is one that has been discussed in great detail. Attempts have been made to show that the tariff was paid by the foreign producers, and not by the ultimate consumer. In every case that the tariff is effective in maintaining the home price above the world price, however, the consumer actually pays a higher price for the product than he would have paid if there had been no tariff. Prof. B. H. Hibbard has stated it succinctly:

> "Tariffs, at least ours, are intended to raise domestic prices; if they do not do so, they fail of their purpose. If prices are increased and effective, the tariff is tantamount to a requirement that we, as consumers, first pay to the government a charge for the privilege of buying in the world market, or, of buying at an augmented cost, from protected home producers." [3]

In this general cost of the tariff to all consumers, the farmer bears his share of the cost to the nation as a whole. No accurate estimation of this cost has ever been made.

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[3] B. H. Hibbard, "Who Pays the Tariff Duties?" *Journal of Farm Economics.* Vol. XIII, No. 4. Oct., 1931. p. 552.

The difficulties involved and the methods used are discussed in Appendix C. In the case of a few individual items estimates have been made but they give little indication of what the total cost might be. Dr. Maxwell S. Stewart, using a method suggested by a group of Australian economists, has calculated that the cost of the tariff, on 11 products imported in considerable quantities, and on 10 products imported in only small quantities, was $554,693,000 for one year under the Smoot-Hawley tariff rates. These 21 products, included in the above estimate, formed only 15 per cent of the total dutiable imports into the United States.[4]

This estimate is simply indicative of the size of our tariff bill to the ultimate consumer. The farmer bears part of his share of the bill every time he purchases a pound of sugar or a can of paint. The fact that these costs are so widely diffused makes them appear painless. As in the case of a sales tax, the costs are largely borne on a per capita base, with little or no relationship to ability to pay.

Other estimates of the cost of the tariff to the consumer in general, and the farmer in particular, have been made by Mr. H. E. Miles, chairman of the Fair Tariff League.[5] The method used to determine the cost of the tariff was to assume that one-half of the current tariff rate represented the increase in price which was borne by the consumer. This amount was estimated for the products of 62 protected industries in 27 states. The total cost to consumers for one year, at 1929 tariff rates, was $1,988,661,000, for 27 states. If this were kept up for seven years the consumers of these states would pay a total of $13,920,627,000, in order to protect the producers of the eastern states. Of this huge bill (which covers only 62 industries) it was estimated that the cost of the tariffs to the farmers alone

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[4] A description of method used and references are given in Appendix C.

[5] The Fair Tariff League is stated to have a membership of 1,500,000 farmers, 800,000 wage earners, and others. This organization considers the tariff from the point of view of the consumer as well as the producer. It has persistently pointed out the costs to the consumer of specific duties. The head office is located at 2210 Pennsylvania Ave., N.W., Washington, D.C.

was $809,839,000 per year when 30 states were included.[6] These estimates can be criticized because they do not make any attempt to determine the actual price differential between the prices paid on the protected home market and the world prices for similar commodities. As in the case of the previous estimate, these figures cannot be accepted as an accurate measure of the total cost of the tariff to the consumer, but they do indicate the size of the sum which is being paid by the consumers of the nation.

Indirect taxation by means of import duties has been a policy adopted by almost all nations at some stage in their history; This method of taxation, in spite of its so-called "painlessness," has largely come into disrepute because it has no relationship to a person's ability to pay, because the individual has no method of estimating how much he is paying in taxes, and because it encouraged smuggling on a large scale as soon as the duties became high. The protective tariff, by keeping competing goods from entering the country, eliminates income from the duties upon those goods and, under this system, goods which are not produced here at all or only in small quantities come in duty free as, for example, tea, coffee, and rubber. The protective tariff, therefore, results in higher prices to the consumer without a corresponding increase in the income of the national government. This increase in price stimulates an increase in production where there is no monopoly control; this enables less efficient firms to produce and allows higher profits for the more efficient firms. In other words the cost of the tariff is borne by the masses of the people, while the benefits are limited to a few of the more efficient producers who are enabled to make high profits. Where less efficient firms are enabled to produce they do not reap high profits nor pay high wages; they employ labor to produce less efficiently than other industries, and the consumer pays to maintain the

[6] Fair Tariff League, "What Every Citizen Should Know About the Tariff. Index to 17 Tariff Studies of the Fair Tariff League Inserted in the Congressional Record by Leading Coalition Senators." 2210 Pennsylvania Ave., N.W., Washington, D.C. p. 1.

situation. It simply means that we have subsidized inefficiency.

Tariffs and Inflexible Industrial Prices

There is a further indirect cost to the consumer that it is impossible to measure. This is due to the fact that the removal of foreign competition makes it much easier for trade associations and gentlemen's agreements to flourish. In many cases this has resulted in the maintenance of artificially high prices with correspondingly high profits. While the nation was expanding and developing rapidly this factor may have been of value in creating capital which was invested in more productive goods designed to increase the quantity of consumers goods available. Now that the continent has been fully opened up, and the amazingly rapid increase of population has slowed down, this accumulation of capital may be more rapid than the demand for capital goods; this results, as we have seen in an earlier chapter, in a widening spread between the ability to produce and the ability to buy. As suggested by Dr. Moulton, this could be avoided if industry in general would reduce the prices of goods. It is, of course, impossible to estimate how much this rigidity of the industrial price structure has been due to tariff protection, but the high duties on foreign competitive goods appears to have been one of the major contributing factors.

Harmful and Useless Tariffs That May be Reduced

To reduce these costs to the consumer, tariffs must be reduced. When this is considered there is an immediate and strenuous opposition. Every industry which benefits from a tariff uses all the political pressure it can to retain or raise it. Because the costs of the tariff are diffuse, there is no strong political group representing the consumers as a whole. When a business has been developed behind a tariff wall, a sudden reduction of tariffs may result in its collapse. This danger can be averted to a large extent by reducing tariffs gradually and upon selected commodities.

The decision as to which tariffs should be lowered can hardly be left to the elected representatives because each one desires to protect the products of his own district. Vote trading to achieve this end is almost inevitable. Samuel Crowther believes that there is no answer to this problem, and writes,

> "No one, to repeat, advocates free trade, but many talk about lowering tariffs so as to take more foreign goods. Ask, 'what goods?' The reply is a great silence."
>
> "Evidently we have not barred any of the long and imposing list of necessities which is presented from time to time as one of the reasons why we cannot exist in isolation. No one is proposing that we exist in isolation. That is a false issue raised to cover the lack of an answer to 'what goods?'"[7]

This was written in November, 1934. Apparently Mr. Crowther had been neglecting the current literature on this subject, because, in May of the same year, a very excellent answer to that particular question was published by Dr. Stewart, who has based his summary upon reports of the tariff commission and other government publications of an earlier date. As Dr. Stewart points out,

> "In principle there is little disagreement among authorities regarding the type of product on which the United States can best afford to make tariff concessions in reciprocity agreements. American policy in this respect was set forth definitely at the London Economic Conference and reiterated at the Pan-American Conference at Montevideo, ..."[8]

Dr. Stewart then lists five classes of duties which "most clearly lack economic justification." Because of the important part this type of analysis must play, and has played, in the reduction of specific duties, these five classes of duties are presented in some detail.[9]

1. The first group of duties are those which exclude foreign competition. The tariff commission's investiga-

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[7] Samuel Crowther, *A Primer*. Cited. p. 28.

[8] Maxwell S. Stewart, *Tariff Bargaining Under the New Deal*. Foreign Policy Reports, Vol. X, No. 6. May, 1934. Foreign Policy Assn., N.Y. p. 74.

[9] *Ibid.*, p. 74. Dr. Stewart's presentation has been somewhat condensed in the following summary.

tions reveal that there were 1,021 dutiable articles of which imports were less than 5 per cent of domestic production in 1931, and this report gives some conception of the wide range of products on which tariffs might be reduced without harmful results.[10] Many of the articles listed had imports of less than 1 per cent of the amount produced in the United States. The following list gives a few of the more important goods in this category.

A. Dutiable articles of which there were no imports.

Liquid ammonia	Lead arsenate
Malt extract	Test boards
Tin compounds	Chewing gum

B. Dutiable articles of which imports were less than 1 per cent of domestic production.

Blackings, stains, etc.	Apples
Vulcanized fibre	Raisins
Printing ink	Iron and steel scrap
Lead pigments	Alloy steel
Soap, unperfumed	Tinplate, etc.
Salt, in bulk	Covered wire
Fire brick	Storage batteries
Limestone	Aluminum utensils
Portland cement	Steel rails
Ball bearings	Electrical machinery
Bottles, etc.	Safety razor blades
Mirrors	Clock, etc.
Granite	Automobiles, etc.
Sandstone	Locomotives
Machines, etc.	Sugar beets
Zinc ore	Onions
Candy	Cabbage
Tobacco manufactures	Chocolate
Cigars, cheaper grades	Carpets and rugs
Cattle	Cotton cloth
Sheep	Cotton shirts
Bacon, ham	Wool yarns
Macaroni	Wool fabrics
Rice	Silk hosiery
Wheat flour	Leather
Cottonseed	Auto tires

[10] U.S. Tariff Commission, *Economic Analysis of Foreign Trade of the United States in Relation to the Tariff*. Senate Document No. 180. (72nd Congress, 2nd Session). Part 1. p. 461.

C. Dutiable articles of which imports were more than 1 but less than 5 per cent of domestic production.

Medicinals	Potatoes
Window glass	Cream
Pig iron	Canned fish
Nails, etc.	Dried beans
Textile machinery	Cotton hosiery
Lead	Silk fabrics
Furniture	Rayon

2. The second group of tariffs which might safely be lowered are those which are abnormally high. Many articles appearing in this list would also be found in the list above. Where specific duties have been in force the price decline after 1929 raised these duties greatly when expressed on a percentage ad valorem basis. For example, in 1931 the duty on clocks was 108.5 per cent, 84 per cent on wool fabrics and yarns, 76.3 per cent on beans, and 148 per cent on onions. In 1932 ad valorem equivalents of specific duties were, for example, caffeine, 209 per cent; potato starch, 148 per cent; soybean oil, 126 per cent; tungsten ore, 211 per cent; and razors and thermos bottles, 233 per cent. The Tariff Commission lists 540 articles on which the rate of duty exceeded 50 per cent in 1931.[11]

3. The third group is comprised of tariffs on articles the importation of which has declined during the past few years in comparison to domestic production. This indicates that the tariff is progressively reducing imports in relation to consumption needs and cannot be justified on the grounds of protecting the existing status of American industries. For example, when imports in 1931 are expressed as a percentage of the imports of 1929, we find soybean oil from Manchuria down to 24 per cent; imports from Canada were down to the following figures, cattle 14 per cent, dressed beef 4 per cent, lamb 4 per cent; from Germany glass articles were only 14 to 38 per cent of the 1929 figure; from the United Kingdom razor blades were 4 per cent, wool yarn 62 per cent, and wool fabrics 27 per

[11] U.S. Tariff Commission, *Economic Analysis of Foreign Trade of the United States in Relation to the Tariff.* Cited. pp. 325-409.

cent. Similarly, over a wide range of products and countries the imports have declined. In some cases home production has also declined, but in all cases mentioned this was a smaller decline than the reduction in imports.[12]

4. Another group of tariffs which should be removed, in order to lessen the costs paid by the consumer and also expand our export market, is comprised of those high duties which have been in force for a considerable period of time and have not stimulated American production. Typical examples of this type of tariff are the ones on olive oil and sugar. In spite of a tariff of over 75 per cent,[13] American producers provided only 2 per cent of our domestic consumption of olive oil in 1932; the American consumers paid $5,150,000 in duties to keep this industry alive, and this sum is equal to $17 for each gallon of oil produced here. In the case of sugar, high tariffs have not resulted in any large increase in the American sugar beet industry, and only about one-fifth of the total domestic consumption is produced in the continental United States. In spite of the increased production of our island possessions, we import a large percentage of our requirements from Cuba; our tariff was largely benefiting our island possessions and causing them to increase production at the expense of Cuba. American consumers paid approximately $200,000,000 annually as the cost of her sugar tariff, while the yearly output of domestic sugar is valued at about $60,000,000 a year.[14]

5. The fifth and last group of tariffs which might reasonably be reduced are those on goods in the production of which the United States is at a distinct disadvantage, and produces only a small amount. This group overlaps the previous group but also includes a large number of articles which are not produced in this country. The

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[12] U.S. Tariff Commission. *Economic Analysis of Foreign Trade of the United States in Relation to the Tariff.* Cited. pp. 2-208.

[13] *Ibid.*, part 1, p. 467.

[14] For the causes of our failure to increase our sugar production, detailed figures of the cost of the tariff, and the distribution of the benefits, see Chapter VI, p. 158-167. Also Commerce Yearbook 1932, *et seq.*, and references to Chapter VI.

Tariff Commission lists 352 dutiable articles in the production of which foreign countries have distinct advantages over the United States. Table 11 gives some of the more important of these.

TABLE 11

DUTIABLE ARTICLES IN THE PRODUCTION OF WHICH THE FOREIGN NATIONS HAVE A DISTINCT ADVANTAGE. U.S.A. 1931*

Commodity	Principle Source of Imports	Percentage *Ad valorem* Equivalent of Duty
Dyes, etc.	Germany	51.4
China and porcelain	Japan-Germany	84.0
Watch movements	Switzerland	88.5
Quicksilver	Spain	68.7
Sugar	Cuba	152.3
Tobacco for cigar wrappers	Sumatra	50.0 to 152
Tobacco for cigar filler	Cuba	45.0 to 50
Carpet wool	Asia	114.3
Lace articles	China	90.0
Machine lace, hand finished	France	90.0
Embroidered cotton	Switzerland	90.0

* United States Tariff Commission, *Economic Analysis of Foreign Trade*. Cited. Figures are for 1931 except for quicksilver which is for 1932. In the case of dyes, 359 types were imported in 1931 and 223 of these were noncompetitive.

Besides these articles there are a large number of dutiable articles which are not produced at all in this country, or only produced in insignificant quantities. The more important of these are given in table 12 with the tariff rates for 1931.

When all these groups of articles are considered together, there is revealed an imposing array of unnecessary and harmful tariffs. With the completion of the reciprocal trade agreements a number of these articles listed above have benefited from tariff rate reductions. These figures for 1931 are presented here in order to show clearly the unnecessary costs to which the Ameri-

TABLE 12

DUTIABLE ARTICLES OF WHICH THERE IS LITTLE OR NO DOMESTIC PRODUCTION. U.S.A. 1931*

Commodity	Chief Source of Supply	Percentage *Ad valorem* Equivalent of Duty	Values of Imports $000	Value of Domestic Production $000
Menthol	Japan	18.5	883	75
Olive oil	Italy	66.0	8,453	†
Vanilla beans ...	France	33.4	1,216	none
Manganese ore ..	U.S.S.R.	101.3	3,103	‡
Dates	Iraq	26.0 to 29.0	3,379	‡
Almonds, shelled.	Spain	71.4	2,719	905
Hyacinth bulbs ..	Holland	11.4	702	‡
Brazil nuts	Brazil	25.0 to 30.0	2,317	none
Cocoanuts	Jamaica	29.4	1,010	‡
Cashew nuts	India	10.0	2,074	none
Castor beans	India	21.9	2,359	none
Jute fabrics	India	15.0	28,867	none
Linen fabrics	U.K.	35.0	4,304	none
Linen damask ...	U.K.	45.0	2,943	none
Linen handkerchiefs .	U.K.	35.0 to 53.0	2,050	‡
Oriental rugs	Persia, China	66.9	7,729	none
Beads, etc.	Czechoslovakia	35.0 to 45.0	3,589	‡
Fibre hats, etc. ..	Italy, Japan	25.0	11,950	none
Dressed furs	China	26.2	4,836	‡
Embroidered linen and silk goods .	China, France	90.0	3,482	‡
Embroidered linen handkerchiefs .	U.K., China	90.1	2,266	90

* U.S. Tariff Commission, *Economic Analysis of Foreign Trade.* Cited. Part 1. *Passim.*

† Not available but less than 10 per cent of domestic production.

‡ Negligible.

can consumer had been subjected by a non-discriminating policy of protectionism. These examples also answer Mr. Crowther when he asks, "what goods can we import?"

Apart from reducing the cost of the tariff to the consumer, reductions of the above types of tariff will help to achieve ends which are much more important. Lower tariffs will mean lower prices for American consumers and stimulate an increase in imports; at the same time lower foreign tariffs on American products will lead to lower prices for foreign consumers of these goods and thus stimulate our exports. This, it is expected, will particularly affect our exports of farm products and make a permanent program of crop curtailment unnecessary. In the past the farmer has paid in two ways for the tariff; the prices of goods he bought have been increased or kept high, while the prices of the goods he sold have been depressed because our refusal to accept imports curtailed our exports and helped to create a surplus which drove prices down. In the future a reasonable policy of tariff reductions should also benefit him by reducing the cost of some of the goods he buys and by raising the prices of the goods he has to sell on the world market.

The Costs Must be Paid

The tragic picture of Germany today reveals the condition to which a nation may be reduced by following a consistent policy of economic nationalism. Meat and fats are now rationed; the grain held by the farmers is measured and rationed; the number of hogs and cattle that may be fed is fixed by law; old bones are saved; motor oil is reprocessed; and a vast number of substitutes are created at great expense to replace the raw materials which can no longer be imported. A crop failure may be a national calamity and cause revolution or war. During the past few years the standard of living of the people has steadily declined; fat consumption declined from 41.3 pounds per capita in 1929 to 34.3 pounds in 1934,[15] and has declined even more since that date. Beef is being replaced by pork, and egg consumption has been greatly reduced.

[15] League of Nations, *World Economic Survey, 1934-35.* p. 88.

Under the present circumstances of a fully authoritarian state all sources of supply and production must be controlled in order to regulate prices, and there seems little hope of raising the standard of living of the masses unless steps are taken to replace autarchy with both economic and political co-operation.

While America would not suffer as greatly as Germany is now suffering, under an attempt to establish a regime of economic nationalism, the costs would be heavy even here; the difference is only a matter of degree. The costs must be paid.

CHAPTER X

NATIONAL PLANNING AND FOREIGN TRADE

Foreign Policy an Extension of Internal Policies

It would seem as if the growing realization of the costs of the tariff, to both the farm producer and the consumer, should cause the people to withdraw their support from the traditional high tariff policy of this country. America, today, is facing the possible dilemma of having a majority of her people in favor of lower trade barriers, and, at the same time, favoring actions which will make economic nationalism inevitable. In other words, economic nationalism is not likely to develop in America as the accepted policy of the people, but there is a real danger that it may gradually develop as the result of internal policies dealing with our national economy.

Political scientists hold that the foreign policy of a nation is merely an extension of its internal policy. This concept appears to be particularly true when one considers the relationship of national planning and foreign trade. Certain types of national planning may encourage world trade upon a sound basis, while others make a continuation of foreign trade an impossibility. In the past few years the concept of national planning and control of our economic life through price fixing, price maintenance, and price boosting has come to be widely accepted in the United States, and it does not seem to be an exaggeration to state that this concept is diametrically opposed to the concept of an expanded world trade.

While it is impossible to deal fully with the problem of national planning, it is essential that the general implications of planning in their relationship to foreign trade be briefly outlined.

The Growth of the Concept of Social Control Through Price Fixing

The concept of social control through price fixing, or price maintenance, is widely accepted by our farmers and farm leaders today. The methods used to maintain prices are numerous; production controls to reduce surpluses, government loans on farm commodities, outright purchase of price-depressing surpluses which have reached the market, and the subsidized production of soil conserving or soil building crops in place of soil depleting crops, are typical of measures aimed at increasing prices. The A. A. A. and N. R. A. were directed at raising domestic prices and thus at stimulating recovery. Under the A. A. A., programs of various kinds have been put into operation for the relief of producers of cattle, cotton, corn and hogs, goats, peanuts, rice, sugar (both cane and beet), tobacco, and wheat. To some it may seem as if these programs were responsible for the higher prices enjoyed during the years the A. A. A. was in force, and yet, as has been shown, the devaluation of the dollar and the drought of 1934 and 1936 overshadow any effects of A. A. A. planning.

This faith of the farmers, in price fixing measures, is reflected in the widespread demand that they be given "cost of production plus a reasonable profit" for their produce. To establish such a price for a commodity, the government would have to decide which farmers were to obtain their cost of production; would it be the efficient or the inefficient? Also it would have to decide how many consumers would purchase the product at the price established. If the price were too high, consumption would decline and production would have to be restricted to maintain a balance at that price. If the price were too low there would not be enough of the commodity to satisfy the demand and consumers would have to be rationed;

and, in the case of farm products, the weather might completely upset any tentative balance which might be achieved. There would be great pressure upon the government by the producers of all commodities to have the prices of their goods raised.

Another typical demand is that expressed by Representative Gardner Withrow of La Crosse, Wisconsin, who has drafted a bill asking that an appropriation of $25,000,000 be turned over to the Secretary of Agriculture for the purchase of surplus butter and cheese which would be distributed to the relief agencies.[1] If this large fund is provided to buy surpluses of cheese and butter in order to maintain prices, it would probably increase the production of these products, and, as was pointed out in an earlier chapter, the most important single factor affecting the price of cheese appears to be the extremely rapid increase in production which has taken place without any artificial stimulus. For dairying as a whole, the policy might cause a more rapid increase in milk production in dairy states and in states which at present produce a small quantity of milk. The only possible ways of preventing this increase in production, and further accumulation of surpluses, would be to rigidly restrict milk production, or to raise the price of other farm products competing for the time and resources of dairymen in order that there would be no price differential favoring milk production. If this latter action were taken then our exports of farm products would automatically cease when our prices were raised above world levels.

Price Fixing and Foreign Trade

In order to maintain these prices, our home market would have to be protected by tariffs. Foreign purchasers are not willing to pay in this country a price higher than that necessary to secure similar products elsewhere. Nor could we permit them to sell on the domestic market at world prices which would break down the artificially

[1] *Capital Times,* Madison, Wisconsin. February 24, 1937. p. 4.

high prices established by government planning. They would not buy from us, and we, of necessity, could not permit them to sell to us. In the case of a few commodities, such as cotton and tobacco, raising the American price might also raise the world price for a time. If this rise were large, and maintained over any long period, it would probably result in an increased production in other countries, and prices would ultimately be depressed by increased world surpluses. If the government attempted to follow this plan, or similar ones, for artificially stimulating prices, it seems as if we would inevitably be faced with economic isolation and vast acreage reduction. For agriculture, the choice is simple; we must either accept world prices and export our surpluses, or adopt price fixing and reduce production to home consumption. For a short period these results from price control schemes may be obscured, and, in a period of emergency, some reduction of vast surpluses may well be justified as a means of bringing relief to a depressed class of producers. If such a policy is continued over any length of time, however, the logical results will make themselves felt. The suggestion to maintain the price of dairy products is based upon the fallacious concept that the dairy industry is a monopoly. It is not, and a price differential favoring milk production would simply increase the supply and make the problem more difficult to solve in future years. Furthermore, any increase in prices might curtail consumption, stimulate the use of substitutes, and cause the surpluses to grow larger.

It is not only farm groups which seek higher prices for their product through government control. The laborer wants a minimum wage act and, if he belongs to a union, the right to have a closed shop with the ability to create scarcity through the control of union membership.[2] In many respects laborers and farmers appear to be in similar straits; both have more to sell than there are purchasers to buy. The unemployed worker cannot buy the food he

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[2] The recent decision of the Supreme Court, upholding the Wagner Labor Relations Act, indicates that some of these objectives of organized labor have been upheld.

needs, particularly the semi-luxuries such as dairy products, meat, and fresh vegetables, while the farmer can not buy the products of labor because his income is so reduced that even the purchases of household necessities are curtailed. As in the case of farm products, any large increase in wage rates would result in higher prices of the products of industrial labor and lead to a demand for higher tariffs in order to prevent the American price level from being lowered by competition with world prices. Such complicated arrangements as those embodied in the N. R. A., where wages and prices were both to be controlled, would also lead to a demand for protection of these fixed prices from foreign competition.

In the earlier discussion of the problem of price parity between agriculture and industry, the fact that price control in agriculture would necessitate price control in industry was pointed out. Unless this were done, when farm prices for raw materials and food were raised the cost of living of the workers would be increased. This would lead to a demand for higher wages and thus increase the costs of production; prices of industrial products would probably rise sufficiently to pay for the increased cost of raw materials and wages, and the disparity between farm prices and industrial prices would tend to reappear.

This widespread belief in the efficacy of price control as a means of national planning seems to be based solely upon a consideration of the returns to producers. The farmer feels that if he can obtain a high price for the goods he produces he will be content; the laborer feels that high wages are the desired end; and the manufacturer associates high prices with profits. Yet it appears quite obvious that no one group would be better off if all prices rise together. Temporarily, debtors might gain, and taxes would appear relatively lower until they also rose to the new level. Advantages can only be gained when one group obtains a rise in prices while other groups are prevented from obtaining a similar rise. Before attempting to evaluate the effectiveness of social planning through price control, apart from its repercussions on foreign trade, the broad objectives of social planning must be outlined.

The Basic Objectives of National Planning

To state that laissez-faire, in its commonly accepted meaning, is dead is redundant. Economists of today point out how man has consistently interfered with the working of free competition. Labor unions have raised wages; employers have combined to hold up prices; tariff walls have been erected to reduce or prevent competition; interest rates have been fixed, and history reveals a continuous stream of social and economic legislation interfering with the economic freedom of man. Today the general census of opinion is that the theory of free competition breaks down because of two basic flaws. According to theory, prices of goods should be reduced as the cost of production falls, and interest rates should decline as savings are increased relative to the demand for money to invest in capital goods. As was pointed out in Chapter II, this did not happen during the postwar boom. Prices of goods declined very little, wages rose slightly, but interest and profit rates rose. The second flaw lies in the concept that all money saved went into the production of new capital goods and, therefore, production and purchasing power must always balance. This has been shown to have been fallacious, and that actual savings may be much greater than the demand for investments in new productive enterprises. As a result of the failure of the system to function in accordance with these rules, there have been periodic collapses alternating with periods of great activity, and a gradual development of chronic unemployment. The basic aims of any scheme of national economic planning must aim, therefore, at remedying the basic flaws shown to exist in the present competitive system.

From the farmers' point of view, and thinking in terms of the full use of developed agricultural resources both of people and land, the basic objectives of national planning appear to be:

1. The full employment of all workers, in order to increase the home market for farm products, and in order to reduce the burden of taxation which is at present necessary to meet relief needs.

2. As stable a general price level as possible in order to make creditor-debtor relations equable.

3. A price level of industrial goods in harmony with the price level of farm products when they are on a world basis.

4. A gradually increasing standard of living, through increased production of goods, which should advance with the growth of our technical knowledge.

5. Such an equitable distribution of the products of industry that consumption balances production.

Price Fixing and its Economic and Social Implications

If we analyze the whole concept of national planning through price control, in the light of these broad general objectives, it appears not only to lead directly to a policy of economic nationalism, but also to rationing of production or consumption. Then, when this logical result is reached, there is no guarantee that the objectives of full employment, balance of production with consumption, and an increasing standard of living would be attained. Not only that, but there would also be the definite danger that political pressure groups would obtain power and use it to better their own positions at the expense of less influential interests.

The above statement is based upon certain logical implications which appear to be inherent in any system of social control through price fixing, either by production controls or any other means. These implications will now be taken up in turn.

1. When any system of price fixing is adopted, the function of a flexible price system is destroyed. The essential function of a flexible price system is to achieve a balance between consumers' demands for goods and the production of those goods. Prices are the means by which subjective human desires and the supply of goods are related. While this function of the price system appears less important in the cases of raw materials and foodstuffs, where there is relative inelasticity of demand, it is of great importance in relating the demand, for all goods beyond

the bare necessities of life, and the production of those goods. The only alternative to a flexible price system is some form of production or consumption rationing. If prices were fixed too high, consumption would decrease, and production would be stimulated. The result would be a constantly growing surplus. Either production would have to be rationed to certain privileged groups, or the price would have to be reduced. If prices were fixed too low, then production would decline and the consumers' demand increase; again we face the two alternatives, either consumption must be rationed or the price raised. If, by any chance, the price were fixed at such a point that production and consumption did balance at the time the price was established, a change in fashion or custom, or the rise of a new article competing with the old, might entirely change the demand for the goods at that price; similarly, for agricultural products, variable weather conditions continually upset the supply, and in either case production or consumption rationing would have to be resorted to in order to maintain the desired balance.

2. Price fixing appears to be simply an indirect way of redistributing the purchasing power of the nation. Obviously, if all prices are raised equally, no one benefits in the long run. One group in society can benefit only at the expense of other groups, and unless all prices were fixed this benefit would probably not be permanent, and certainly the intended advantages would not be realized.

3. One result of this ability of the government to assist specific groups of producers will be the development of pressure groups all seeking their own gain. The representatives of the dairy states are asking for high tariffs, and are ready to link up with the protectionists of the industrial east in order to obtain their ends. They appear to be concerned only with their local problems and have little consideration for the farmers dependent upon exports. The result of political pressure in determining the amount to be loaned on cotton has already been discussed. Once a minimum wage law is established there will be constant pressure by some group to raise it. The wheat

grower, the cotton farmer, the corn producer, and even the peanut cultivator, will all raise their voices and promise their votes to those in power in return for added price advantages.

Upon such premises it would seem imposisble to build anything of lasting benefit to society as a whole. Group struggle would be intensified; when the farmer demanded a higher price for his milk, labor would in all probability oppose it with all the powers of its various organizations; labor might very well claim, "We need cheap food, particularly milk, and more of it." In the resulting conflict some authority must resolve the dispute, and, in a democracy, the group with the greatest voting power tends to be more righteous in the eyes of the elected administration. Only if one assumes some law of harmony, inherent in the nature of the universe, can one conceive of the greatest good for society being attained by this group approach to planning. If we assume such a harmony, then one will be able to say that, as each group of producers pursues its own selfish ends, the good of society will inevitably result. This represents the laissez-faire philosophy extended to groups rather than to individuals, and just as individuals have used their economic powers to further their own interests to the detriment of society as a whole, so might powerful groups harm society rather than enrich it by seeking only their own advantage. If the government were an impartial body, it might act as arbiter between conflicting groups and see to it that no one group obtained an unfair advantage over any other. With an elected government, this impartiality is difficult to obtain because the group with the greatest political power would yield undue influence. There remains only a vista of dangerous compromise and shuffling of groups to obtain political power in order to reap economic benefits. Just as we have had to develop stringent limitations upon the freedom of individuals to prevent them from taking unfair advantage of their fellow men, or combine together to the detriment of society, so would we have to develop limitations upon the more powerful groups in order to avoid similar dan-

gers. Whether this control could be carried out successfully for the general good of society would seem to depend upon the ethical outlook of the voters. If they voted solely for representatives who would seek to enhance the income of the group to which they belonged, regardless of the welfare of other groups, then a combination of dominating groups might permanently oppress weaker groups. Even though this be accepted as the just result of majority rule, there is no assurance that, in attaining immediate benefits for certain groups, the final result will not be loss, not only to society as a whole, but to the ruling groups as well. The action of the representatives of the dairy regions in opposing the reciprocal trade agreements and linking up with the industrial protectionists is typical of the way in which one group seeking what it considers to be its own immediate gain may set forces in motion which will finally destroy any temporary gain and result in a net loss to society.

4. It also seems clear that price fixing would reduce our national income in goods if it depended upon the reduction or control of production to achieve its ends. Only as our productive capacity is redirected into new channels, instead of simply being curtailed, can this loss be avoided. The basic weakness of price fixing as a social control measure seems to be its failure to stimulate production along new lines.

5. Finally, price maintenance at home appears to lead inevitably to a growing economic nationalism, with high tariffs erected to prevent any fluctuations in world prices from upsetting the price structure within the nation.

Because of these limitations, production control and price maintenance schemes are not necessarily to be condemned completely, but the limitations of this type of planning should always be kept in mind. If some export commodity falls greatly in price, because of a decline in world trade, some assistance by this form of indirect subsidy may be justified as a temporary measure; the permanent solution will lie in re-establishing world trade or in directing production into new channels. Similarly, one

group of producers may suffer from such low prices that the curtailment of their purchasing power upsets the previous balance and causes widespread disorder. In such a case, temporary assistance to the depressed group may help in restoring balance; but it is by taking part of the purchasing power from other groups that this is achieved, and unless the other groups have more of the national income than they can spend or invest in capital goods, no permanent increase in social wealth results. We merely obtain a more equable distribution of the same wealth if reduction of production is not resorted to, and a more equable distribution of less wealth if production is reduced.

Alternative Methods of Social Control

It seems clear that the welfare of the American farmer dictates that he choose an international policy which will be most beneficial to agriculture as a whole, rather than divide into opposing groups each seeking its own immediate gains. At the same time he must also choose an internal policy in harmony with the international policy. If price maintenance is demanded because of the immediate gains it offers, then all of its implications to our foreign trade and internal control should be clearly realized and accepted. Besides considering the long-time results of such a policy, the possibilities of other types of social control, which do not involve the nation in economic nationalism, should also be carefully evaluated.

The alternative methods of social control all have their fervent supporters and expounders. Socialism claims to be the only final solution which will achieve the basic aims of planning; full employment, equitable distribution of wealth, balance between production and consumption, and a standard of living as high as the technical development of the nation will permit. Because the state would own all the means of production, excess income from any branch of production would flow to the treasury and out to the people again as social services. The flexible price system will allow the subjective value of goods to con-

sumers to be expressed, and a product in great demand would rise in price and create surplus "profits" at the factory; the size of this surplus fund above costs of production would indicate the need for expansion; where there was a deficit, production would be curtailed. International trade would flourish although it might have to be controlled rather rigidly at first. Ultimately, all land would be state owned, and the farmers would share in the general wealth produced by the nation. The basic weakness of the scheme appears to be, not in the logic of its solution to our problems, but in the fact that man works harder and better for an unknown reward than for a known one.[3] Ideally, man can be conceived of as living fervently for society or a social ideal, but it is doubtful if American farmers will believe it and accept any government pledged to complete socialization.

Apart from the clear-cut plan of the socialists, there are innumerable compromises between socialism and capitalism. In a recent book, *Social Planning for Canada,*[4] a modified socialist plan is presented. Farms would be owned by the operators, and credit allowed by the state at low interest rates. Industry would be gradually socialized, banks, railways, coal and steel industries, monopolies, and all essential public utilities coming first. The authors point out how little difference the change will make to the position of the majority of workers; they would continue their jobs but under a new ownership, an ownership which aims at creating the greatest possible social wealth and distributing it to all producers. Socialization would be achieved by paying compensation to the present owners with new issues of government bonds;

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[3] There are many other criticisms of the socialists' position; some claim that man works better for himself than he would for society, others state that there would be too great a limitation upon the individual's initiative and society would cease to progress; still others claim that it would destroy the freedom of the individual, whatever that may mean when we consider how little economic freedom the average worker of today has. Intriguing as these questions are, it is impossible to discuss them in the limited outline presented here.

[4] The Research Committee of the League for Social Reconstruction, *Social Planning for Canada.* Thomas Nelson & Sons, Ltd., Toronto. 1935.

high taxes on unearned income would reduce the amount of interest to be paid out to bondholders, and confiscatory inheritance taxes would finally bring the bonds back to the government. The whole scheme is extremely well presented and gives detailed plans for organization and control. Foreign trade would be in the hands of an import and export board, and everything possible would be done to encourage it.

A further compromise approach is that offered by Prof. J. M. Keynes, who presents the problem from the money angle rather than the ownership of the means of production. Professor Keynes desires to keep as much individualism as possible in the system. He points out that the present system does direct the productive forces of those employed into the right channels, and produces the goods we want, but the flaw lies in the failure of the system to employ all the workers. "It is in determining the volume, not the direction, of actual employment, that the existing system has broken down." [5] The remedy for this fatal flaw, he suggests, is to have the interest rate controlled by the government. He bases his conclusions upon the following basic concepts which are summarized here in simple form.

1. Low consumption of goods, which may be caused by a high rate of saving, is antagonistic to the growth of new capital goods which respond to a demand for goods (i. e., high consumption).

2. The scale of investment in new productive enterprises is promoted by a low rate of interest and retarded by a high one.

3. The return from capital goods must cover the cost of risks, the profit (which represents the wages of the entrepreneur who organizes and manages the business), the cost of maintenance or replacement as the goods wear out, and interest on the money borrowed from the rentiers (who are the owners of savings and recipients of unearned increment). When this return from investments in capital

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[5] J. M. Keynes, *The General Theory of Employment, Interests, and Money.* Harcourt, Brace & Co., N.Y. 1936. p. 379.

goods is too low new investments do not take place and chronic unemployment develops.

When unemployment developed, the government would reduce the rate of interest so that investments in new capital goods would be stimulated. This increase in investment in durable goods would take place because the lower interest rates would allow more of the returns from the use of such goods to flow to the entrepreneur as profits, asuming that risk and replacement charges remain the same. This would stimulate consumption and tend to reduce savings so that full employment would result. Where savings were too low and consumer's demands tended to cause a general rise in prices, then the interest rate would be raised. Under the present development of the capitalist system, Professor Keynes sees that there need be no scarcity of funds, even at very low interest rates, and states,

> "I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain, and will need no revolution." [6]

Regarding the relationship of this method of control to international trade, he states,

> "International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbor which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantage." [7]

Professor Simons of the University of Chicago has of-

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[6] J. M. Keynes, *The General Theory of Employment, Interest, and Money.* Cited. p. 376.

[7] *Ibid.*, p. 382.

fered suggestions[8] for making capitalism function more effectively by controlling monopoly and enforcing competition. He points out that laissez-faire, in its true meaning demands positive action on the part of the state to maintain and enforce competition. His suggested program calls for (1) the elimination of monopoly in all its forms and direct government ownership of all industries which cannot be made competitive; (2) the establishment of a national monetary authority which would control the quantity and value of money, and the removal of this right at present held by our private bankers through the system of fractional reserves which allows vast fluctuations of credit to take place; (3) drastic changes in our taxing system with removal of sales and commodity taxes which tax the poor unequally, and with higher income taxes increasing according to ability to pay; (4) reduction of tariffs on imports whether other nations reduce their tariffs immediately or not (he upholds the idea of using our present tariffs to bargain for lower tariffs by other nations but feels we should reduce our tariffs even when we fail to obtain concessions in return); and (5) the limitation of the amount of our resources which should be permitted to be squandered on competitive advertising and sales promotion schemes.

From the point of view of the farmer such a program would appear beneficial if it could be carried out gradually. It would mean the re-establishment of competitive prices in industry and an expansion of our export trade. It is diametrically opposed to our present trend toward price fixing and rationing. The implications of both plans to economic freedom and political democracy are clearly outlined by Professor Simons.

When we turn to Denmark and Sweden we find a type of social control based upon the development of cooperative producers and consumers associations, with the government actively assisting in financing and developing them. In most nations we find a more or less unco-ordin-

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[8] Henry C. Simons, *A Positive Program for Laissez-Faire*. University of Chicago Press. 1934.

ated mixture of all kind of social control with a gradual growth in number and variety of measures used. In England high taxes on unearned income[9] and extremely high inheritance taxes act as one means of redistributing the national wealth; the money collected is paid out through the unemployment insurance scheme and other social services. Interest rates have been reduced through refunding operations and a managed currency. Old age pensions, medical insurance, and housing schemes are all developed. Consumer co-operatives have grown rapidly to include productive enterprises, and the conservative government is now considering the best way to nationalize the mines. In Canada, public ownership has increased along many lines; the Dominion Government owns and operates the Canadian National Railway and telegraph system; the Province of Ontario owns and operates the electrical power of the province through a commission; the City of Toronto owns and runs its own street car and motor bus services; and numerous provinces and municipalities own and operate their telephone systems. In the United States public ownership of many utilities has developed and appears to be on the increase. Co-operative associations of producers are increasing, and consumer co-operatives are being assisted through government loans for rural electrification projects. In the realm of finance, an attempt is being made to maintain a stable general price level through the increased powers granted to the Federal Reserve Board; the rate of interest has been reduced on Government bonds through conversion, and the government has entered the loan market through its direct loans to farmers. The soil conservation program represents the growth of a national concern for our soils, and could easily be extended to embrace all natural resources such as coal, oil, and water power. There are also the T. V. A., the resettlement and rehabilitation programs, the recent social security legislation, and the beginning of minimum wage legislation. These measures are but a few of the vast num-

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[9] "Unearned income" is used here to denote all income from investments in stocks, bonds, etc., and rental receipts.

ber of social control acts that have been passed by the Federal and State Governments. In many cases the acts appear to be completely unrelated to any general plan for the national economic life and, in some cases, there is a definite conflict between policies.

The Need of Co-ordinated Planning in the United States

One of the greatest needs in the United States today is a comprehensive and unified program of national planning. Before such a program can be developed, the means by which we wish to progress must be clearly defined, as well as the general objectives of planning such as have already been suggested. The alternative means are simple in their general outline although infinitely complex in detail. In their simplest forms, these alternatives, which are by no means mutually exclusive, may be classified as follows:

1. Complete progressive socialization through public ownership of all the means of production and distribution.
2. A modified capitalism through the growth of public ownership of monopolies and public utilities, with private enterprise continuing in all fields where competition is actually operative or where competition can be stimulated or enforced.
3. A modified capitalism regulated through government control of the monetary system and the interest rate.
4. A redistribution of income by means of high taxation on all unearned income, corporation surpluses, earned incomes in the high and middle brackets, and inherited estates.
5. A system of price control by means of which the income of the nation is allocated to certain groups on a basis of some price parity concept.
6. The growth of consumers and producers co-operative societies.

In actual practice many of these methods are used together, and their relationship to the prosperity of our farmers should be considered in all cases. In this essay, the concept of price control has been discussed because

it seems highly probable that it will come to the fore again if, and when, the present relatively high prices of farm products, in relationship to other prices, decline.

As pointed out in earlier chapters, those farm prices which were upon a world basis rose rapidly because of the devaluation of the dollar in terms of gold. Gold prices on the world market remained relatively stable, but prices in the new American dollar rose greatly. During this period industrial prices did not rise so rapidly because these goods were largely sold on the home market, and costs of production remained comparatively low. One result of these relatively low prices of industrial goods has been an increase in their exports because, in terms of gold, they were very cheap on the world market. Since the devaluation of the dollar, the 'gold block' of Europe has collapsed through the devaluation of the French and Swiss francs and Italian lira. At the same time the cost of living in America has risen steadily, wages are being increased, and the prices of manufactured goods of all kinds are advancing. If in 1937 and 1938 the present trend continues, and at the same time we have normal crops, it appears to be inevitable that the prices of farm products will be again at a great disadvantage compared to industrial products.[10] If this actually occurs, it is highly probable that the farmers will demand some form of price raising legislation unless they understand clearly the full implications inherent in such an approach to the solution of their problems, and also the alternative methods of economic control which will not involve the nation in economic nationalism. If this analysis has contributed to an understanding of the costs of economic nationalism and its relationship to price control, then its object has been accomplished. The evaluation of other forms of national planning is too large a field to be developed here.

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[10] Since this was written, it appears that this trend has already set in; for the last twelve months prices of farm products have declined much more rapidly than have prices of industrial products. See footnote 17, Chapter II.

APPENDIX A—STATISTICAL TABLES

TABLE 1

GROSS FARM INCOME, VALUE OF AGRICULTURAL EXPORTS, AND RATIO OF AGRICULTURAL EXPORTS TO FARM INCOME. U.S.A. 1910 TO 1935

YEAR*	VALUE (MILLIONS OF DOLLARS)		RATIO OF EXPORTS TO INCOME§ Percentage
	Gross Farm Income†	Agricultural Exports‡	
1910	6,643	871	11.6
1911	6,372	1,013	16.2
1912	6,784	1,051	15.5
1913	6,975	1,124	16.1
1914	7,028	1,114	15.8
1915	7,295	1,476	19.9
1916	8,914	1,518	17.0
1917	12,832	1,968	15.9
1918	15,101	2,280	15.1
1919	16,935	3,580	21.1
1920	13,566	3,862	26.4
1921	8,927	2,608	29.2
1922	9,944	1,916	19.3
1923	11,041	1,799	16.3
1924	11,337	1,867	16.5
1925	11,968	2,280	19.1
1926	11,480	1,892	16.5
1927	11,616	1,908	16.4
1928	11,741	1,815	15.5
1929	11,941	1,847	15.5
1930	9,454	1,496	15.8
1931	6,968	1,038	14.9
1932	5,337	752	14.1
1933	6,406¶	590	9.6
1934	7,276¶	787	11.8
1935	8,508¶	669	8.4

* Crop year for crops; calendar year for livestock and livestock products; and year ending June 30 for value of agricultural exports.

† U.S.D.A., *Income from Farm Production in the United States in 1935.* Page 2, table 1. September, 1936.

‡ U.S.D.A., *Agricultural Statistics.* 1935. p. 292, table 421. (Forest Products not included).

§ Calculated. Fiscal year figures are used because calendar year figures are not available before 1915. Rental and benefit payments deducted for 1933, '34, and '35 in order to obtain a closer ratio to actual production.

¶ Estimates include income from rental and benefit payments of $378,000,000 for 1933, $595,000,000 for 1934, and $498,000,000 for 1935.

TABLE 2

INDEX NUMBERS OF PRICES RECEIVED AND PRICES PAID BY FARMERS, AND RATIO OF PRICES RECEIVED TO PRICES PAID
(U.S.A. 1910-1935)

Calendar Year	Index Nos. 1910-14 = 100		Ratio of Prices Received to Prices Paid by Farmers
	Farm Prices*	Prices Paid by Farmers†	
1910	102	98	104
1911	95	101	94
1912	100	100	100
1913	101	101	100
1914	101	100	101
1915	98	105	93
1916	118	124	95
1917	175	149	117
1918	202	176	115
1919	213	202	105
1920	211	201	105
1921	125	152	82
1922	132	149	89
1923	142	152	93
1924	143	152	94
1925	156	157	99
1926	145	155	94
1927	139	153	91
1928	149	155	96
1929	146	153	95
1930	126	145	87
1931	87	124	70
1932	65	107	61
1933	70	109	64
1934	90	123	73
1935	108	125	86

* U.S.D.A., *Agricultural Statistics.* 1936. p. 346, table 451.
† *Ibid.*, p. 345, table 450. (All commodities bought for use in production and family maintenance.)

TABLE 3

FARM PRICES OF COTTON, TOBACCO, AND BEEF CATTLE IN U.S.A. AND MILK IN WISCONSIN. 1900–1934

YEAR	FARM PRICES			
	Cotton* (Cents per Pound)	Tobacco† (Cents per Pound)	Beef Cattle‡ (Dollars per Head)	Milk§ (Dollars per 100 Pounds)
1900	9.2	6.6	23.60	.82
1901	7.0	7.1	18.83	.84
1902	7.6	7.0	17.73	.96
1903	10.5	6.8	17.44	.94
1904	9.0	8.1	15.42	.84
1905	10.8	8.5	14.32	1.00
1906	9.6	10.0	14.98	.99
1907	10.4	10.2	16.16	1.10
1908	9.0	10.3	15.96	1.07
1909	13.6	10.1	16.53	1.21
1910	14.0	9.3	18.02	1.24
1911	9.6	9.4	19.41	1.14
1912	11.5	10.8	20.03	1.30
1913	12.5	12.8	24.91	1.33
1914	7.4	9.8	29.42	1.31
1915	11.2	9.1	31.54	1.30
1916	17.3	14.7	31.69	1.55
1917	27.1	24.0	33.91	2.18
1918	28.9	28.0	38.63	2.60
1919	35.4	31.2	41.79	2.85
1920	15.9	17.3	40.01	2.60
1921	17.0	19.5	29.05	1.69
1922	22.9	22.8	21.89	1.64
1923	28.7	19.0	23.41	2.09
1924	22.9	19.0	23.03	1.77
1925	19.6	16.8	22.57	1.90
1926	12.5	17.9	26.40	1.92
1927	20.2	20.7	28.12	2.11
1928	18.0	20.0	36.30	2.15
1929	16.8	18.4	42.93	2.05
1930	9.5	12.8	40.44	1.63
1931	5.7	8.2	28.08	1.15
1932	6.5	10.5	18.32	.88
1933	9.7	13.0	14.11	.98
1934	12.6	22.0	12.77	1.09

* U.S.D.A., *Yearbook of Agriculture.* 1935. p. 426, table 113. (Price per pound received by producers Dec. 1.)

† U.S.D.A., *Yearbook of Agriculture.* 1935. p. 451, table 155. 1919 to 1934 (price per pound received by producers, average prices for crop marketing season). 1900 to 1918, *Yearbook of Agriculture.* 1927 (prices received by producers Dec. 1).

‡ *Yearbook of Agriculture.* 1935. p. 554, table 318. (Estimated value per head on the farm of all cattle and calves other than milk cows.)

§ Dept. of Agriculture and Markets, Wisconsin, *Wisconsin Agriculture.* Bulletin 140, p. 14, table 9 (1900-1932) and Bulletin 150, p. 101, table 68 (1933-1934).

TABLE 4

INDEX NUMBERS OF FARM PRICES FOR MILK, AND ALL PRODUCTS EXCEPT MILK. WISCONSIN, 1910-1934*

YEAR	INDEX NOS. 1910-1914 = 100	
	Milk	All Products Except Milk†
1910	98	99
1911	90	92
1912	103	101
1913	105	102
1914	104	106
1915	103	99
1916	123	122
1917	169	176
1918	200	192
1919	224	205
1920	206	200
1921	134	123
1922	131	119
1923	165	111
1924	140	116
1925	150	138
1926	150	152
1927	167	142
1928	170	143
1929	162	148
1930	129	130
1931	91	89
1932	70	63
1933	78	64
1934	86	76

* Dept. of Agriculture and Markets, Wisconsin, *Wisconsin Agriculture*. Bulletin 150, p. 8, table 2, cols. 5 and 2.

† "All products except milk" includes 29 items, the main sources of all other cash farm income.

TABLE 5

INDEX NUMBERS OF VALUE AND QUANTITY OF AGRICULTURAL EXPORTS. U.S.A. 1910-1935

YEAR (ENDING JUNE 30)	INDEX NOS. 1909-10 to 1913-14 = 100	
	Value*	Quantity†
1909-1910	84	78
1910-1911	99	92
1911-1912	101	114
1912-1913	108	110
1913-1914	107	106
1914-1915	142	138
1915-1916	146	118
1916-1917	190	118
1917-1918	219	101
1918-1919	345	145
1919-1920	372	134
1920-1921	251	127
1921-1922	185	137
1922-1923	173	112
1923-1924	180	104
1924-1925	220	126
1925-1926	182	106
1926-1927	184	136
1927-1928	175	112
1928-1929	178	117
1929-1930	144	97
1930-1931	100	90
1931-1932	72	98
1932-1933	57	95
1933-1934	76	83
1934-1935	64	54

* Calculated from table 1.

† U.S.D.A., *Agricultural Statistics.* p. 294, table 424. (Based upon exports of 44 commodities.)

TABLE 6

INDEX NUMBERS OF FARM PRICES FOR COTTON, TOBACCO, AND BEEF CATTLE IN U.S.A., AND MILK IN WISCONSIN. 1900 TO 1934

YEAR	FARM PRICE INDEX NUMBERS* (1900-1914 = 100)			
	Cotton	Tobacco	Beef Cattle	Milk
1900	91	72	125	77
1901	69	78	100	79
1902	75	77	94	90
1903	104	75	93	88
1904	89	99	82	79
1905	107	93	76	93
1906	95	110	79	93
1907	103	112	86	103
1908	89	113	85	100
1909	135	111	88	113
1910	138	102	96	116
1911	95	103	103	107
1912	114	118	106	121
1913	124	140	132	124
1914	73	107	156	122
1915	111	100	167	121
1916	171	161	169	145
1917	268	263	180	204
1918	286	307	205	243
1919	350	342	222	226
1920	157	190	212	243
1921	168	214	154	158
1922	227	250	116	153
1923	284	208	124	195
1924	227	208	122	165
1925	194	184	120	178
1926	124	196	140	179
1927	200	227	149	197
1928	178	219	193	201
1929	166	202	228	192
1930	94	140	215	152
1931	56	90	149	107
1932	64	115	97	82
1933	96	143	75	92
1934	125	241	68	102

* Calculated from Table 3.

APPENDIX B

SOME STATEMENTS RECEIVED BY THE COMMITTEE FOR AMERICA SELF-CONTAINED INDICATING WIDESPREAD SUPPORT FOR ITS PROGRAM

FLOYD F. BURTCHETT, *Department of Economics, University of California at Los Angeles, Los Angeles, Calif.* "I am heartily in sympathy with the idea of solving home problems before going into world problems."

ROBERT D. CAREY, *United States Senator from Wyoming,* Careyhurst, Wyo. "The happenings since the World War and the results of foreign conferences have convinced me that it would be to the interests of this country to follow the principles of Washington and others of our great men and avoid foreign entanglements. The United States can be a prosperous nation without the help of Europe."

THEODORE CHRISTIANSON, *Congressman from Minnesota,* Minneapolis, Minn. "I believe that it is unfortunate that the policies pursued during a greater part of the time since October, 1929, have been based on the theory that economic recovery in America must await a restoration of buying power abroad. Such a fatalistic philosophy dooms us not only to a continuation of present conditions, but their aggravation in the future. There is no good reason why with our great natural resources and the possession of man power, machine power, and organizing capacity that exist in America, there should be a failure to produce and distribute enough to give every person not only an adequate but even a luxurious living.

"If we fail to attain that objective, we shall have to acknowledge ourselves bankrupt in statesmanship and initiative."

FRANCIS B. CONDON, *Congressman from Rhode Island,* Pawtucket, R.I. "I think the American people, and the Administration ought to give serious and careful consideration to the program of national policy discussed in this book (America Self-Contained)."

CHARLES R. HOOK, *President, The American Rolling Mill Company,* Middletown, Ohio. "I am in entire accord with a policy based upon the five principles which you state."

ED HUNTER, *Secretary, Indianapolis Chamber of Commerce,* Indianapolis, Ind. "Personally, I have always been of the opinion that if there ever was a nation that could 'build a fence' around itself it is the U.S.A. We have everything to make us happy and contented and yet we are in the paradoxical position of having millions out of work and with insufficient food and clothing. There is a way out and I am glad to note that there is a movement on foot to rectify some of our past mistakes."

WAYNE G. LEE, *Managing Director, Dayton Chamber of Commerce,* Dayton, Ohio. "America is not even a country; to my thinking it is not even an empire; it is a great continent in itself. With its one hundred and twenty millions of people, its boundless and untouched resources, its educational advantages and its mastery of all the mechanics that make the world go round, there is no logical reason whatsoever, in my humble judgment, why America could not and should not be self-contained."

NATHAN MAYO, *Commissioner, Department of Agriculture, State of Florida,* Tallahassee, Fla. "I am of the opinion that the sooner this country realizes it can and ought to live at home, the better off it will be; not only from the standpoint of economic independence, but from the standpoint of safeguarding against foreign complications."

ABE MURDOCK, *Congressman from Utah,* Beaver, Utah. ". . . . Am deeply interested in and sympathetic toward the purpose of your Committee."

GERALD P. NYE, *United States Senator from North Dakota.* "I have long been of the opinion that we in America were basing our entire structure too much upon a foundation builded by foreign use of a very limited part of our American production. I am sure that the sooner America divorces itself from such dependence the sooner will America enjoy that better day sought."

MORGAN G. SANDERS, *Congressman from Texas,* Canton, Texas. "I endorse the principles for which you stand."

WILLIAM I. SIROVICH, *Congressman from New York,* New York, N.Y. "It is needless for me to state that I am in full sympathy with the principles involved upon the subject 'America Self-Contained.'"

RAYMOND D. THOMAS, *Dean, School of Commerce, Oklahoma Agricultural and Mechanical College,* Stillwater, Okla. "I subscribe

whole-heartedly to the New Declaration of American Economic Independence. As I interpret present trends, I can see a very important quest of our generation and of succeeding generations in an effort to achieve stability and security of economic life. Our nation has suffered from relating our domestic economic life too closely with the fluctuating international economic order."

Elmer Thompson, *Secretary, The Automobile Club of America,* New York, N.Y. "I am in entire accord with the America Self-Contained plan. . . . ."

C. H. Williams, *President, Montana Wool Growers Association,* Deer Lodge, Mont. "I am heartily in accord with the sentiments expressed by the author of 'America Self-Contained' . . . .

"Washington in his farewell address to Congress warned the American people to avoid foreign entanglements. Our great love for humanity in general during the World War has gotten us into trouble."

Oswald Wilson, *Editor, Western Irrigation,* San Francisco, Calif. "For years the writer has advocated the principle of America Self-Contained both editorially and in addresses that we have made before the public, and I am glad to learn that a definite organization is being perfected to carry on the principles."

APPENDIX C

DIFFICULTIES INVOLVED IN ESTIMATING THE COST OF THE TARIFF TO THE CONSUMER

Any estimate of the cost of the tariff to the consumer, can only be of a tentative nature, and wide margins of error must be allowed. The difficulties in making any general estimate of the total costs of all the tariffs to the consumers of the nation as a whole are almost insurmountable. Estimates would have to be made for each dutiable article to determine whether the home price was raised above the world price by the full amount of the duty or only a fraction of it. To determine this accurately, monthly, weekly, and even daily quotations may have to be used because of the wide variations in the differential which may take place from day to day, or month by month. The differential between the New York price of butter and the London price illustrates this clearly. In 1924 this differential was 8 cents (the full amount of the duty) during January, February, and March, while there was no differential from July to October. In 1927 it varied from 12 cents (the new tariff rate) to 5.1 cents per pound.[1] Because these differentials vary from year to year and month to month, any estimate of the cost of the tariff to the consumer is only valid for the period specified, and cannot be used as a basis of estimation for any other period because variations may take place in the supply, demand, and institutional factors affecting the market. Government subsidies, currency control measures, barter

[1] Ronald R. Renne, *The Tariff on Dairy Products*. Cited. p. 62.

agreements, technological changes in production, substitution of other commodities, changes in consumer requirements, seasonal variations, and changes in production are some of the factors related to the variations in the price differential. In many cases, no regular price quotations for both the American and world market are available, and no estimate of the differential can be made.

Even though we are able to establish the price differential over a given period of time, the problem is not solved. This differential represents the maximum cost of the tariff which can be charged against the consumer. If the differential between the New York price of butter and the London price is 10 cents at any particular time, it does not follow that this full differential should be charged as the cost of the tariff to the consumer; if the tariff were eliminated then butter would be imported, and the home price would decline, and at the same time the imports into America would reduce the world supply and tend to raise the world price; finally a new world price would prevail which would be lower than the previous American price but higher than the previous world price. The actual cost of the tariff to the consumers should, therefore, be the difference between the actual New York price and the world price which would prevail if there were no tariff; this might be anywhere from a maximum of just under 10 cents to a minimum of just over 0, in the case of the 10-cent differential. For each commodity under consideration, the actual price differential under a certain tariff rate, and the amount of this which may legitimately be charged to the consumer, would vary.

Some investigators have attempted to estimate how much of this full differential should be allowed as the cost of the tariff to the consumer by the use of supply and demand curves. The chief proponent of this method is Prof. Henry Schultz who has used it in estimating the cost of the sugar tariff to the consumer.[2] The main diffi-

[2] Henry Schultz, *Statistical Laws of Demand and Supply with Special Application to Sugar.* Chicago, 1928. In the case of sugar, Professor Schultz uses three sets of supply and demand curves, the American, the insular, and

culty with this type of analysis lies in the fact that the supply and demand curves are developed from an historical time series interpreted in terms of neo-classical "equilibrium" theory. This assumes non-interference by governments, free competition, free mobility of labor and capital, and most important of all, freedom to change to alternatives. Under such conditions the method would undoubtedly give a more accurate estimate of the cost of the tariff to the consumer than the maximum figure obtained by simply estimating the price differential for the period being considered. Where the basic presuppositions of the theory prevail, this method may be legitimately used. The difficulty is, however, that these conditions are extremely rare today. Where capital is in the form of capital goods it is no longer mobile; where there is no alternative productive activity to which labor may be easily directed, then a lower price may simply mean a lower standard of living and, possibly, increased production resulting from an attempt to earn more at a lower rate. Furthermore, government subsidies, monopoly control, quota agreements, currency controls, or the business cycle, may introduce new institutional factors in any one month or year, and this entirely invalidates the use of supply and demand curves obtained from an historical series at a time when these new factors were not active. If the method advocated by Professors Pigou, Wright, and Schultz is used when such institutional factors have changed, the results may be more erroneous than an estimate based upon the actual price differential.

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the world. Each of these was based on a different statistical time series. To be accurate the method would call for a series of supply and demand curves for every country producing a significant part of the world's total suppy or having a significant influence on world demand by its consumption. In the case of butter, curves would have to be constructed for the United States, Canada, Australia, New Zealand, Denmark, Great Britain, Germany, Ireland, and the world. In the case of six of these countries, government subsidies or quota restrictions entirely invalidate the use of supply and demand curves in obtaining "equilibrium" prices. The complexity of the problem is further increased by the relationship of butter prices to industrial pay rolls, the alternative uses to which milk can be put, and the alternative uses of land in increasing or decreasing the supply of milk. Some of these factors operate only over a long period of time and others over a period of days. This illustrates the extreme complexity of the equilibrium approach and the many factors which may invalidate it.

This latter method has been used by the Tariff Research Committee of the University of Wisconsin. While admitting that the results represent the maximum cost of the tariff to the consumer, this approach is upheld as being more realistic in the light of our present understanding of the complexities of our economic life. Prof. Walter A. Morton discusses this problem of method in Appendix A of the first publication of the agricultural tariff series.[3] Professor Schultz criticizes the method of approach of the Wisconsin School and upholds his own approach in an article in the *Journal of Farm Economics*.[4] From a study of these two methods it seems impossible to accept either as being an accurate measure of the increase in price which must be borne by the consumer buying on the protected market. The Wisconsin method does, however, provide a figure which represents the maximum cost to the consumer, while Professor Schultz's method provides a lower figure, which may or may not be more accurate, depending entirely upon whether the price determining, and price determined, factors remain constant and measurable through the whole time series, and through the period being considered. One is driven to accept Professor Schultz's statement that

> "if it is impossible to derive these curves, it is impossible to determine the effect of the tariff on price."[5]

While an accurate estimate appears to be impossible, except in the case of a very few articles, by the equilibrium method, accurate maximum figures are obtained by the price differential method.

In a recent study of the Australian tariff a rough estimate of the cost to the consumer was determined on the following basis,

> "a. When it is clear that imports contribute a substantial proportion of the quantity of any particular goods con-

[3] Walter A. Morton, "Methods of Tariff Investigation." Appendix A in *The Tariff on Sugar*, by Lippert S. Ellis. Cited. p. 161.

[4] Henry Schultz, "Methods of Determining Tariff Effectiveness." *Journal of Farm Economics*, Vol. XVII, No. 4. p. 625. November, 1935.

[5] *Ibid.*, p. 633.

sumed, it may be expected that the price of home made goods is at least equal to that of imported goods plus duty, and the excess cost of such articles is the maximum possible for the particular rate of duty.

> "b. When the imports of the whole of any class of goods are relatively small, so that consumption is almost entirely of domestic goods, it may be presumed that the price of the domestic product is somewhat below that of the imported goods after the duty has been paid. In such cases the excess cost may be estimated to average at least one-half the possible maximum." [6]

This method can be criticized from almost every standpoint; it makes no accurate estimate of the actual price differential, as is undertaken by the Wisconsin School, and some estimates might be too high or too low; it also neglects entirely the refinements, which Professor Schultz would like to introduce, dealing with the supply and demand equilibria in the home and world markets.

The method has, however, some factors in its favor; it deals with classes of goods rather than items, it is simple to calculate, and it can be used rapidly to make rough estimates of a large variety of goods. The method has been applied to a number of products for the United States by Dr. Maxwell S. Stewart who states,

> "While this method of estimating the cost of the tariff seems at first sight to be extremely arbitrary, the errors involved would tend to cancel out, giving at least an approximate measure of excess costs. The chief difficulty involved in an attempted application of this measure to American conditions lies in the inadequacy of statistics on domestic production. Only in the case of a few of the principle products is the available material sufficient for even the rough estimate desired. Moreover, there are many articles, particularly those which are imported in negligible quantities because of high protective duties, where the influence of the tariff cannot be determined. Despite these handicaps, some conception of the size of the bill paid by the American public for protection may be gained by applying the above formula to a few of the heavily protected

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[6] J. B. Bridgen, D. B. Copland, E. C. Dyason, L. F. Giblin, and C. H. Wickers. *The Australian Tariff: An Economic Inquiry.* Melbourne University Press. 1929. p. 37.

> commodities that continue to be imported into the United States in considerable amounts."[7]

Dr. Stewart used the above method and calculated the cost of the tariff on eleven products which are imported in considerable quantities, and on ten products which are imported in quantities which are relatively small. He found the estimated cost of the tariff on these 21 products was $554,693,000 for one year under the Smoot-Hawley tariff, and these products constituted less than 15 per cent of the total dutiable imports for the United States.[8] This figure may be used, not as an actual measure of the cost of the tariff to the consumers, but merely as an indication of the size of the bill which we pay each year.

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[7] Maxwell S. Stewart, *Tariff Bargaining Under the New Deal.* Foreign Policy Reports, Vol. X, No. 6, p. 72.

[8] A detailed table giving the products used in this estimate, the rate of duty, and estimated cost in each case is found on page 73 of the above citation.

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